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Russian Ties Complicate U.S. Blacklist

By RACHEL LOUISE ENSIGN

U.S. companies trying to avoid running afoul of the recent sanctions against Russia face a monumental challenge: Figuring out which companies are owned by those blacklisted.

Some of the people and entities on the new lists of sanctions, part of the U.S. government's effort to pressure Russia over the conflict in Ukraine, have extensive connections to other companies in countries throughout the world. That poses hurdles for American companies, which are restricted in doing business with some companies owned by those that are blacklisted.

The U.S. has put 50 entities and 57 individuals on the new Russia and Ukraine sanctions lists since March, according to the U.S. Treasury Department. But those 107 parties hold ownership stakes or potentially exercise control of thousands of other companies around the globe, some-

times indirectly, according to the database.

Some of those companies have blacklisted individuals among their executives or directors, where they could exert influence or control.

Companies with ownership or management ties to those lists can be found in more than 70 countries around the world, including the U.S., according to data compiled by Dow Jones Risk & Compliance. **News Corp's** Dow Jones Inc., which owns the Risk & Compliance database, is the publisher of The Wall Street Journal.

The number of countries is a testament to the wide net U.S. companies must cast when trying to comply with the new sanctions.

The targets of the recent sanctions own companies "all over the world," said Judith

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The Philippines Hangs On During Typhoon



Associated Press

A man clings to a pole amid powerful winds brought by Typhoon Hagupit in Legazpi, Albay province, on Sunday. Despite some dire forecasts, the typhoon so far has taken only one life and hasn't matched the devastation of the monster storm that caused 6,300 deaths last year. **Article on page 8**

Tumble in Oil Prices Spurs Bet On Growth

By IAN TALLEY

Many of the world's top policy makers are rewriting their economic forecasts for the U.S., Europe and elsewhere in the world, betting that plummeting oil prices will boost growth by handing consumers and manufacturers a windfall.

Officials at the International Monetary Fund, U.S. Federal Reserve and European Central Bank have in recent days shrugged off concerns that the tumbling cost of crude signals a global economic slowdown. Instead, they project cheaper oil will be a shot in the arm for the world economy overall, especially countries with high energy tabs.

Stanley Fischer, vice chairman of the U.S. Federal Reserve, called it a "supply shock" that will help the U.S. "It's more likely to increase GDP than reduce it," he said.

"The effect is unambiguously positive," European

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Two Hostages Killed In Yemen Rescue Bid

By JULIAN E. BARNES
AND MARIA ABI-HABIB

An American and a South African held hostage for more than a year by al Qaeda's Yemen branch died after a raid by U.S. Special Operations forces over the weekend, the second rescue attempt in as many weeks.

Militants shot Luke Somers, 33 years old, during the raid in the early morning hours of Saturday, U.S. Defense Secretary Chuck Hagel said.

South African teacher Pierre Korkie also was shot during the raid, according to a charity that had been trying to help negotiate his release. Both hostages died later after U.S. forces evacuated them from the building

where they were held, U.S. and Yemeni officials said.

Several members of al Qaeda in the Arabian Peninsula, or AQAP, were also killed in the raid, U.S. officials said.

Mr. Hagel said the raid was ordered by President Barack Obama because "there were compelling reasons to believe Mr. Somers' life was in imminent danger."

It was the second attempt to rescue Mr. Somers. A team of U.S. and Yemeni commandos conducted an unsuccessful raid on a hillside cave in Yemen on Nov. 25 to try to rescue him.

The latest raid took place

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Big U.S. Deposits to Be A Burden for Top Banks

Banks are urging some of their largest customers in the U.S. to take their cash elsewhere or be slapped with fees, citing new regulations that make it onerous for the lenders to hold certain deposits.

By Kirsten Grind,
James Sterngold
and Juliet Chung

The banks, including J.P. Morgan Chase & Co., Citigroup Inc., HSBC Holdings PLC, Deutsche Bank AG and Bank of America Corp., have spoken privately with clients in recent months to tell them that the new regulations are making some deposits less profitable, ac-

cording to people familiar with the conversations.

In some cases, the banks have told clients, which range from large companies to hedge funds, insurers and smaller banks, that they will begin charging fees on accounts that have been free for big customers, the people said. Bank officials are also working with these firms to find alternatives for some of their deposits, they said.

The change upends one of the cornerstones of banking, in which deposits have been seen as one of the industry's most attractive forms of funding, said more than a dozen corporate officials, consultants and bank execu-

tives interviewed by The Wall Street Journal.

Deposits have traditionally been a crucial growth engine for banks. Banks generally pay depositors one interest rate and then make loans with higher rates, often collecting fees in the process. But deposits also can be withdrawn at any time, potentially leaving a bank short of cash if too much money is removed at once.

The new rule driving the action is part of a broader effort by U.S. regulators and policy makers to make the

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Business & Finance

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■ **Prada's third-quarter profit** fell by nearly half as slowing demand for luxury goods, especially in Asia, weighed on sales at the Italian fashion house. 16

■ **Italian businessman** Andrea Bonomi raised his bid for Club Méditerranée, firing a fresh salvo in a long battle for the French resort operator. 17

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■ **Pope Francis** said the Catholic Church must find ways of welcoming divorced and gay Catholics as part of a debate by church leadership that has exposed a split in its ranks. 5

■ **Afghan President Ghani** is pushing the U.S. to slow its drawdown of forces, which threatens to put the Obama administration in a bind as it seeks to end large-scale military involvement. 7

■ **Syria's government** said Israel struck two locations in the Damascus suburbs, including an area near the capital's international airport. 9

■ **Saudi Arabia** said it has arrested 135 suspects allegedly plotting to carry out terrorist attacks inside the kingdom. 8

■ **French President Hollande** stopped in Moscow for a surprise meeting with Putin to discuss the crisis in Ukraine. 5

■ **Protesters clashed** with police in Athens as thousands marched to mark the sixth-year anniversary of the fatal police shooting of an unarmed teenager that triggered riots. 4

Many U.S. Workers Stick With the Jobs They Have

[The Outlook]

By Lauren Weber

Friday's banner U.S. payroll numbers put 2014 on track to be the healthiest year for job creation since 1999. That is no small thing.

Yet Americans remain anxious about jumping from job to job, as shown by the slow recovery in labor-market churn, loosely defined as job turnover combined with layoffs and newly created positions. Many top economists, as well as Federal Reserve Chairwoman Janet Yellen, cite this as a leading concern in measuring labor-market health.

The churn rate plummeted during the recession as many workers were afraid to change jobs and has yet to bounce back. A closer look reveals some workers feel more confident about their prospects, even if those in other industries remain less willing to take chances on new opportunities. Who is moving and who is staying put? Job mobility has rebounded relatively strongly for specialized positions like film editors, gas-plant operators, human-resources specialists and information scientists, and for others in booming fields such as technology and energy.

It has remained weak for people in personal-care jobs, like travel agents and home health aides, and for professions with many older workers, including financial advisers and tax preparers, according to new research from labor-market analysis firm Economic Modeling Specialists International. EMSI used census and other data to examine the labor market by occupation and metro area.

Employers may cheer the broad decline in job-hopping, because replacing workers is costly. But economists worry the lower churn rate and other factors may calcify the labor market.

An aging workforce and a slowdown in the formation of new companies—which generally create and shed jobs at a rapid rate—appear to be making the labor market less flexible, according to a recent paper by economists Steven Davis and John Haltiwanger.

Workers' tendency to stay put suggests the labor market has lost some of its dynamism, making it harder for people to enter the workforce or add to their skills.

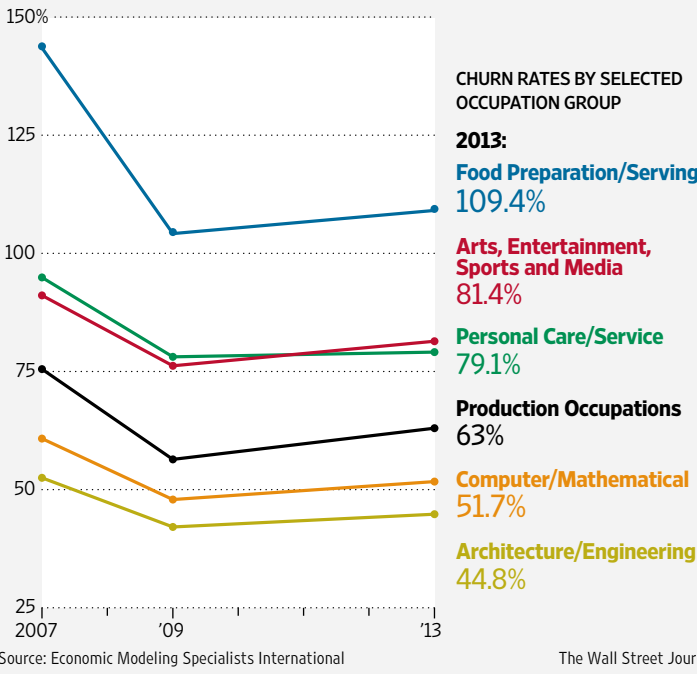
Turnover may be accelerating more broadly now, given that in September, the Labor Department reported the highest number of people quitting their jobs since April 2008.

Still, what is striking is how long it has taken for fluidity to return to the overall labor market, even after several years of job growth, said Andrew Crapuchettes, chief executive of EMSI, which is owned by CareerBuilder.

The recession stalled job-change activity because nervous workers clung to the positions they had. As a result, the rate of churn—a measure of the likelihood that a job will be filled by a new person at some point during the

Job Hoppers

The rate of churn, loosely defined as job turnover, has dropped sharply across the U.S. labor market since the recession but has rebounded more strongly in some fields than others.



year—dropped by nearly a quarter between 2007 and 2009. By 2013, the rate had barely budged from that lower level.

To put the numbers in perspective: In 2003, 147 out of 768 occupations tracked by EMSI recorded churn rates over 100%, meaning each job was likely to turn over at least once during the year. In 2013, only 79 occupations passed that threshold.

Even in food preparation, which includes fast-food workers, churn declined from 143.8% in 2007 to 109.4% last year, barely climbing since hitting a low in 2010. The lower turnover underscores the fact that nearly seven million people who worked part time in November wanted full-time jobs but couldn't find them, so they remained stuck where they were.

Federal data on jobless claims show that the chances of a worker being laid off today have never been lower. Yet workers report high levels of worry they will be fired or have their hours, wages or benefits cut, research firm Gallup found recently.

"Churn is a proxy for employee confidence," said Mr. Crapuchettes. "The jobs are there, but people are nervous."

An optimistic explanation for lower churn could be that employers are simply getting better at putting the right people in the right jobs. The large supply of unemployed workers, combined with sophisticated screening tools, have allowed employers to be more selective and to more tactically hire people who will be successful and satisfied.

At Delaware North, a hotel-management company based in Buffalo, N.Y., turnover at one of its call centers declined from more than 50% in 2010 to about 35% this year, thanks to the use of a screening test that helps the company identify people who enjoy customer-service work. "Making sure we get a person who's going to last" the full

summer-vacation season is crucial, said Andy Grinsfelder, vice president of sales and marketing at the firm's parks and resorts division.

But even if more people feel satisfied at work, the implications are worrisome for workers with less experience and education, as well as the long-term unemployed, since a rigid labor market offers fewer entry points into the workforce. "It's much harder to get started, and much harder to develop the early stages of a career," said Mr. Davis, who teaches at the University of Chicago's Booth School of Business.

Young people and those with limited levels of education tend to acquire their skills on the job, so having fewer opportunities can damage long-term career prospects and earnings, and adds to stubbornly high unemployment rates for those groups, he said.

STELLA MCCARTNEY



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NEWS

Jakarta Chief Pitches Agenda For Investment

PALEMBANG, Indonesia—The new leader of the world's fourth-largest nation promised to move aggressively to lower barriers to investment and overcome decades of unmet potential that have left Indonesia lagging behind more dynamic Asian nations.

By Patrick McDowell,
Ben Otto and Matt Murray

In his first interview with a Western news organization since taking office Oct. 20, President Joko Widodo, popularly known as Jokowi, spoke at length to The Wall Street Journal of streamlining the bureaucracy to spur foreign investment, fixing creaking infrastructure that has choked development, and defending maritime resources.

Mr. Widodo is proposing to transform Southeast Asia's largest economy, which has trouble attracting more of the value-added industry and export-oriented manufacturers it needs to wean itself from dependence on exports of coal and other commodities.

It unsuccessfully courted Samsung, which has billions of dollars in investment in Vietnam.

"Our national budget is very limited, so we need investment, we need investors, to boost our economic growth, to build our deep seaports, to build our airports," he said.

He has asked ministers to study offering tax holidays and other incentives to attract new investment and said that in "competitive" situations where he might be vying with neighbors for billion-dollar investments, he would be ready to make a deal.

But Mr. Widodo faces strong headwinds. The nearly \$900 billion economy is growing at its slowest pace in five years amid weaker demand from China for Indonesia's exports of raw materials. Indonesia has yet to build up a manufacturing sector to reduce its reliance on high commodity prices.

Mr. Widodo is rock-star popular among ordinary Indonesians. But parliament remains firmly in the control of a coalition led by his defeated opponent for the presidency, former general Prabowo Subianto.

Mr. Widodo suggested that his control over the national purse strings would help him with regional leaders. "When they follow our vi-

sion, we give [them] more budget," he said. "If not, we can decrease the budget."

The secret to success, he said, would be frequent control or checking of progress and that the power of his new office would help by offering access to vital information.

"When I was a mayor, when I was a governor, I didn't have intelligence," he said. "Now, I have intelligence."

Last month, Mr. Widodo earned applause from economists by pushing through a controversial rise in the price of subsidized fuel prices, freeing up billions of dollars for infrastructure projects. His next step, he said, beginning this month, will be to shake up the state-owned electric company that has a monopoly on electricity distribution across the archipelago nation.

A senior adviser said this would include a partial or total replacement of the company's board.

Mr. Widodo said a one-stop national office to speed up processing business permits would be opened in January to shorten the time from as long as a year to a few weeks.

Previous governments promised to modernize the sprawling country of some 18,000 islands. But they fell short on electrification and building new roads, rail and ports.

Foreign investment is low. Health care and education levels for the 250 million population are among the laggards in Southeast Asia.

Mr. Widodo said that he would break new ground by actually getting things done.

"Always, I work with a deadline," said Mr. Widodo, pointing to his keeping a campaign promise to raise fuel prices early in his term.

To fuel radical change in the course of his five-year term, Mr. Widodo said he needs almost \$550 billion in investment. Some of that will come from the state coffers as he weans the country off subsidies, but private investors will need to play a central role, he said.

Foreign investors, who pour billions of dollars into Indonesia each year, have been wary.

In recent years, Indonesia has forced some foreign miners to cut their holdings in companies, declared certain sectors off-limits to foreign investment, and introduced age restrictions on foreigners working here.

LET'S USE THE POWER OF IDEAS TO CHANGE THE GAME.

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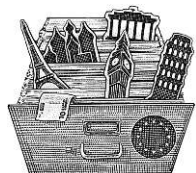
Learn more at www.youtube.com/shellletsgo



President Widodo visited the People Ranch School on Sumatra, on Saturday.

LET'S GO

EUROPE NEWS



EUROPE FILE | By Simon Nixon

Greece Turns Triumph Into Tragedy

Greece's latest drama has the potential to turn into a tragedy. Six months ago, the country seemed to be past the worst and there was widespread optimism among policy makers and the markets that the reform program

had laid the conditions for an investment- and export-led recovery.

Foreign investors had snapped up

Greece's first government bond issue since the start of the eurozone debt crisis and had poured fresh capital into the banking system.

The long-stalled privatization program was attracting serious expressions of interest from global companies and hedge funds, and private-equity groups were on the hunt for bargains.

The mood today is rather different. If anything, the economy has outperformed expectations, growing by 0.7% year-to-year in the third quarter, the fastest growth of any eurozone member, boosted by a blowout tourist season.

Next year, Athens expects growth of close to 3%. Unemployment is finally falling and the country is now delivering both a primary-budget and current-account surplus.

Yet the Greek 10-year bond now trades at a yield of 7.12%, down from a recent peak of 8.8% but still far above the summer low of close to 5.5%. The Greek stock market has tumbled 12.3% from a year ago, Greek banks experienced a worrying deposit outflow in November and retailers say sales suddenly dived in recent weeks.

The gloom reflects political uncertainty. Over the past few months, Greek politicians and the

so-called troika of international lenders—the European Commission, European Central Bank and International Monetary Fund—have contrived to put what progress Greece has achieved in doubt. The country now stands on a knife-edge.

It is still possible that decisions taken over the coming days and weeks can return Greece to the stable path it was on before the radical leftist party Syriza topped the European Parliament elections in June, setting in train the current turmoil. But the possibility diminishes by the day.

For this, Syriza leader Alexis Tsipras must take the lion's share of the blame. He spooked the markets by turning a forthcoming parliamentary vote to elect a new president of Greece—a largely ceremonial position—into a vote of confidence in the government that he hopes will trigger early elections and catapult him into office.

Syriza has recently been trying to rebrand itself to investors in New York and London as a mainstream pro-European party. Yet Mr. Tsipras has opposed virtually every reform and budget cut, standing consistently on the side of vested interests.

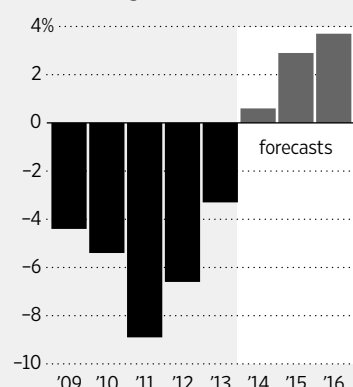
By refusing to cooperate with the government even on reforms of the public administration and constitution that he accepts are urgently needed, Mr. Tsipras appears to embody all the worst aspects of the political culture that he professes to want to change.

His economic strategy amounts to big rises in public spending, re-nationalizations and restoring public-sector jobs to be funded by debt relief from the troika—a program guaranteed to set Greece on a fresh collision course with the rest of Europe.

Lost Ground

Growth has begun to pick up, but investors have driven Greek debt yields back up amid doubts on the pace of economic reforms.

Annual change in Greek GDP



Sources: European Commission (GDP); Tradeweb (yield)

Yield on the 10-year government bond



The Wall Street Journal

Listening to Syriza's strategists, it is hard not to conclude that Mr. Tsipras would be the Hugo Chávez of the Balkans, his program modeled on that of the former Venezuelan leader.

But Prime Minister Antonis Samaras must share some of the blame for the market's loss of confidence. His ill-judged response to the Syriza threat has undermined the trust of investors and the troika.

In June, he effectively fired the head of the tax administration, which troika officials suspect was evidence that Athens was going soft on tax evasion. At the same time, Mr. Samaras reshuffled his cabinet, promoting old-style populists to key posts.

Most damagingly, Mr. Samaras overplayed his hand when he announced in October that Greece would exit its bailout program early at the end of this year, putting itself at the mercy of

markets. The markets quickly gave their verdict, tumbling on fears that, freed from the conditionality of official loans, Greece would abandon its reform program and fiscal discipline.

Indeed, Mr. Samaras appeared to confirm those fears when he bypassed Greece's official lenders by presenting a 2015 budget based on optimistic forecasts direct to the Parliament.

He then extended the time for citizens to pay overdue taxes from 12 months to 100 months, again without troika agreement, raising further doubts about his commitment to reform.

But the troika itself has hardly been blameless. The IMF in particular continues to extend its dismal record in Greece, following on from years of botched forecasts, misguided policies and unnecessary and damaging delays.

For the third time in three years, the IMF is holding up a crucial bailout review by pushing

for further deep spending cuts that Athens insists will prove as unnecessary as they did in 2013 and 2014. It is also demanding deep reforms to pensions and the tax system on a timetable that Athens believes isn't politically realistic.

The IMF may be right that this may be a last chance to exert real pressure on Athens to respect reform commitments—that if, following the current review, Greece is allowed to switch from a bailout program to a precautionary credit line the troika will have less power to influence Greek decision-making. But other troika officials increasingly fear that the IMF's intransigence risks deepening the political uncertainty in Greece.

Can Greece get back on track? Given how much time has been lost in the negotiations, Greece will clearly need some extension to the current program to enable it to meet its existing commitments.

But Athens is hopeful that if it secures a deal in the coming days that allows Greece to exit its program with a precautionary credit line early next year, it could yet gain the 180 parliamentary votes it needs to elect a new president and avoid early elections.

Such a deal inevitably would require a leap of faith from the troika. Mr. Samaras could certainly make that leap of faith easier by making credible commitments to use the political space he gains to reinvigorate his reform efforts rather than engage in further populist electioneering.

But if the troika fails to agree a satisfactory deal with Mr. Samaras, it should brace itself for further political instability—followed by a far less satisfactory deal with Mr. Tsipras.

Clashes Flare in Greece on Anniversary of Shooting

By STELIOS BOURAS

ATHENS—Protesters clashed with police in central Athens on Saturday as thousands marched to mark the sixth anniversary of the fatal police shooting of an unarmed teenager in the Greek capital that triggered the country's worst riots in decades.

Minor clashes had also broken out between protesters and police in rallies taking place in three other cities across Greece.

In Athens, authorities say some 5,000 demonstrators marched through the Greek capital when tens of masked youths started throwing rocks, flares and Molotov cocktails at police.

Shop fronts were smashed and kiosks were damaged, while fires were set on garbage bins and bus stops. Police responded by firing stun grenades and tear gas. Based on initial police reports, some 20 youths had been detained.

Several thousand demonstrators took part in another march in the capital organized earlier by leftists Syriza. The march ended peacefully.

The city center, which accommodates the capital's main retail district, was largely deserted Saturday

after Greek authorities closed main thoroughfares because of the planned rallies.

The police shooting of 15-year-old Alexandros Grigoropoulos on Dec. 6, 2008 touched off days of rioting in Athens and other Greek cities, causing hundreds of millions of euros in damage.

This year's anniversary coincides with protests taking place in support of an imprisoned self-proclaimed anarchist, who is staging a hunger strike after being prevented by Greek authorities from attending university.

The inmate, Nikos Romanos, was convicted of bank robbery and has refused to eat since Nov. 10. He was a friend of Mr. Grigoropoulos and was present when he was shot.

The two have both become symbols of public rage against authorities and austerity measures, which has grown after international creditors demanded cutbacks in exchange for rescue funding.

The government has offered to allow the inmate to complete his studies by correspondence but the offer was rejected by the hunger striker. Prime Minister Antonis Samaras is scheduled to meet with Mr. Romanos's parents Monday.



Protesters occupying the Labor Center in Thessaloniki clashed with riot police Saturday. Clashes occurred across Greece.

EUROPE NEWS

Pope: Church Must Open To Divorced Catholics, Gays

BY DEBORAH BALL

ROME—Pope Francis said the Catholic Church must find ways of welcoming divorced and gay Catholics as part of a yearlong debate by the church's leadership that has already exposed a painful split within its ranks.

In an interview with Argentine newspaper *La Nación* published Sunday, the pontiff addressed the turmoil his 20-month papacy has stirred with more tradition-minded groups in the church, saying it was a "good sign" that there isn't "hidden mumbling when there is disagreement."

The pope also announced that a reorganization of the Vatican bureaucracy won't be completed next year and said he would add visits to both Latin America and Africa to his travel schedule next year.

The comments on gays and divorced Catholics were the pope's first public remarks since the end of the synod, or meeting of bishops, on problems facing the family.

That meeting in October of nearly 200 bishops opened discussion on a range of problems affecting Catholic families, with the goal of providing better solutions on issues such as gay unions, divorce, poverty, domestic violence and polygamy.

However, sharp disagreement emerged on the church's approach to divorced Catholics and gays. One group of bishops called for open support of gay couples and pushed for the possibility of allowing remarried Catholics to receive communion. Currently, the church denies communion to Catholics who have remarried, unless their first marriage is annulled.

Those positions—which, according to senior Vatican clerics, enjoy the support of the pope—sparked fierce opposition from more tradition-minded bishops.

They also exposed the fault lines that have opened since the Argentine-born pontiff was elected in March 2013. While the pope has consistently underlined his support for church doctrine, his reformist agenda and emphasis on welcoming people who have felt repudiated by the church have led to some fears that he is watering down church teachings.

U.S. Cardinal Raymond Burke openly criticized the pope in October, saying the church under his leadership is like "a ship without a rudder."

Bishops will meet again next October to continue the discussion of family issues, after which the pope will decide on any changes in the church's approach.

In the interview with *La Nación*, the pope pointedly said the synod never discussed gay marriage, which the church opposes. But he said the bishops must still consider ways to help "a family that has a homosexual son or daughter...(and consider) how can they raise him or her."

Meanwhile, he noted that divorced Catholics are currently barred from activities such as giving readings at Mass or becoming godparents. "It seems they are excommunicated de facto," he said. Instead, the church should "open the doors a little bit more...Why can't they be godparents?" he asked.

The pope didn't directly address the question of finding a way for remarried Catholics to receive communion.

Pope Francis openly acknowledged the serious discomfort his papacy has caused some groups within the church, but said he welcomed the debate. Some senior figures remark that the pontiff is far more popular with the population at large—both Catholics and non-Catholics—than with some of the church hierarchy.

"Resistance is now evident," he said. "And that is a good sign for me...It's healthy to get things out into the open."

The pope also denied that his decision to demote Cardinal Burke from a senior position in the Vatican was punishment for the cardinal's criticism of his papacy.

Elsewhere, a continuing reform of the Vatican bureaucracy, or Curia, won't be completed in 2015 as many had expected, the pope said, describing the reform as "slow" and "complex."

During the run-up to the conclave that elected the pope last year, cardinals demanded wholesale change of the Holy See's bloated and scandal-prone bureaucracy. A major thrust will be to merge some of the Vatican departments, simplifying the structure and bringing its finances under much tighter scrutiny.

The pope announced additions to his travel schedule next year, which already includes Sri Lanka, the Philippines and the U.S. He will also travel to three Latin American countries and Africa, although he declined to provide further details, and will visit his native Argentina in 2016.

Questioned about the state of his health, the pope said: "I have my aches and pains, and at this age one feels them. (But) up to now I can keep up a rhythm of work that is more or less good."

Pope Francis, who turns 78 on Dec. 17, takes no holiday, usually rises at 4:30 a.m. and maintains an intense schedule.



European Pressphoto Agency

Russian President Vladimir Putin and French President François Hollande met at Moscow's Vnukovo airport on Saturday.

Hollande, Putin Meet

BY RUTH BENDER

French President François Hollande arrived in Moscow on Saturday for a surprise meeting with Vladimir Putin to discuss the crisis in Ukraine, one of the first Western leaders to visit the Russian president since his annexation of Crimea.

Mr. Hollande met Mr. Putin for a tête-à-tête on Saturday afternoon at the Moscow airport, making a stop on his way back to Paris from a trip to Kazakhstan, according to the French presidency.

The visit comes amid fresh tension between Russia and the West over the situation in Ukraine, where Moscow is accused by Kiev and Western powers of aiding pro-Russian separatists in the east of that country.

Mr. Putin, in his annual state of the union address on Thursday, hit back at Western sanctions imposed on Russia earlier this year. Mr. Putin accused the West of provoking a crisis in Ukraine and using sanctions to try to contain Russia.

The Russian leader also defended Moscow's annexation of Ukraine's Crimea region in March, saying Russia would never give up the "sacred" peninsula.

"France wants this crisis to end," Mr. Hollande said in a statement broadcast on French radio after the meeting. "There is suffering, from the Ukrainians, and because there are sanctions."

Mr. Hollande's visit marks a new effort by the French president to try to ease tensions between Russia and the West.

During celebrations in June to mark the 70th anniversary of the World War II's Allied Normandy landings, Mr. Hollande brought Mr. Putin together with leaders who have criticized Russia's annexation of Crimea and support for separatist pro-Russia forces in eastern Ukraine.

In a brief statement before going into Saturday's meeting, Mr. Putin told Mr. Hollande that his trip, how-

ever brief, was a "real working visit."

"Our discussions have positive results," Mr. Putin said, in a video posted by the French presidency on its website. "We will advance together," he said.

"We must avoid having more walls that divide," Mr. Hollande replied.

Mr. Hollande said he and Mr. Putin discussed the situation in Ukraine but also talked about Iran and Syria. He didn't mention the issue of the Mistral warships, which France has been building under a Russian contract that the U.S. and others have pressured the French to cancel.

France last month suspended the delivery of the first of the two navy vessels under contract, a move that risks deepening tensions with the Kremlin.

—Stacy Meichtry
and Andrey Ostroukh
contributed to this article.

Ukraine's Finances Deteriorate

Ukraine's central bank reported its foreign-currency reserves are at their lowest in almost a decade, underscoring the country's precarious financial state as the Group of Seven considers a new multibillion-dollar rescue package.

By James Marson in
Moscow, Laurence Norman
in Brussels and
Nick Shchetko
in Kiev, Ukraine

The slide to just under \$10 billion adds to the pressure on Ukraine's newly appointed government, already grappling with Russian-backed separatists in two eastern regions as well as withering economic output and a coal shortage that contributed to rolling blackouts this past week.

It also presents a dilemma for the West, which has been reluctant to hand over more cash without clearer evidence that Ukraine will deliver on pledges to overhaul its bureaucratic and corruption-plagued economy.

Discussions on a new loan package—which could amount to some \$4 billion—have picked up in recent

days as Kiev's financial situation has worsened, according to several officials familiar with the discussions.

Finance ministry officials from most G-7 countries discussed the issue at a meeting on Thursday, one of the officials said. Talks were still at an early stage and it wasn't clear how quickly any package could go.

According to the officials, the plan would have half of the money coming from the European Union and the other \$2 billion from the rest of the G-7, which includes the U.S., Japan and Canada as well as four EU members.

EU finance ministers are expected to discuss Ukraine's financing needs at a meeting on Tuesday. Ukraine has already requested a €2 billion (\$2.5 billion) balance of payments loan for 2015, which EU officials have said is probably too much. The 28-nation bloc has already committed to lend Kiev €1.6 billion, most of which has already been disbursed.

The U.S. has made clear that any additional financing must be in conjunction with the \$17 billion IMF lending and economic policy-overhaul program approved in April.

Ukraine needs to pass a tight budget for next year, among other

overhauls, to land the next IMF tranche of nearly \$3 billion.

EU officials said this week the IMF has estimated that Ukraine may need up to \$15 billion in extra financing needs through the first quarter of 2016, as the toll of the conflict in the east weighs on government finances and economic growth.

Horse-trading over a new cabinet after elections in October delayed the formation of a new government in Kiev until Tuesday. The new, U.S.-born finance minister has said a budget will be ready by Dec. 20.

An IMF mission is set to return to Ukraine on Tuesday for further talks on releasing funds, the IMF said.

Ukraine's central bank said Friday its reserves dropped 21% to \$9.97 billion in November from the previous month, after paying off some debt for natural gas deliveries owed to Russia, and servicing other debts.

Reserves are now at their lowest since December 2004, when they stood at \$9.71 billion. Analysts said the reserves now cover a little over one month of imports, while the IMF recommends reserves equivalent to at least three months of imports.



Pope Francis addresses the crowd during a prayer at St. Peter's Square Sunday.

U.S. NEWS

Hiring Grows At Best Pace Since 1999

By BEN LEUBSDORF

U.S. businesses ramped up hiring across the board in November, putting 2014 on pace to be the best year for job growth since 1999.

Nonfarm employers added a seasonally adjusted 321,000 jobs in November, the most in one month since January 2012, the Labor Department said Friday. Payroll gains in October and September were revised higher as well. The unemployment rate stood at 5.8%, unchanged from October but down from 7% in November 2013.

Friday's report also showed nascent signs that wage growth, which has been slow during the recovery, is accelerating. If sustained, that could lift incomes and bolster consumer spending during the holidays.

"This is another sign that says we're taking off," said Beth Ann Bovino, chief U.S. economist at Standard & Poor's Ratings Services.

The labor market's improving health could help cushion the U.S. from a deepening slowdown in other parts of the global economy. Continued strong job gains also would bring forward the day when the Federal Reserve starts raising short-term interest rates, which have been near zero for six years during the financial crisis, recession and slow recovery.

Most Fed policy makers expect their first increase will come next year as the economy gains strength. Still, many officials believe they can be patient, because inflation remains below the Fed's 2% target and wage gains below prerecession norms.

"If unemployment continues to decline, if the labor market continues to strengthen and if we see some signs of inflation beginning to increase, then the natural thing is to

get the interest rate up," Fed Vice Chairman Stanley Fischer said at The Wall Street Journal's CEO Council annual meeting this past week.

Average hourly earnings for private-sector workers rose nine cents in November to \$24.66. That was a 0.4% increase from October, double the average monthly gain in the prior 12 months. It marked a 2.1% rise from a year earlier, up a hair from the 2% annual growth of recent years. In addition, weekly earnings were boosted by a slightly longer workweek.

Similar monthly jumps in earnings in recent years have quickly faded. Still, "we're a bit more optimistic that people will finally start to get bigger paychecks," Ms. Bovino said.

Despite steady improvement in most indicators, pain persists across large swaths of the economy. Some 2.8 million people in November had been out of work for more than six months, representing 30.7% of the unemployed. An additional 6.9 million were working part-time jobs because they couldn't find full-time work. Labor force participation remained at levels last seen in the late 1970s.

Economists expect wages to rise as unemployment falls and companies compete to hire from a shrinking pool of available workers. A healthier mix of available jobs could help lift earnings, too. November saw stronger gains in traditionally high-paying fields like manufacturing and finance, on top of continued substantial growth at low-wage retailers and restaurants.

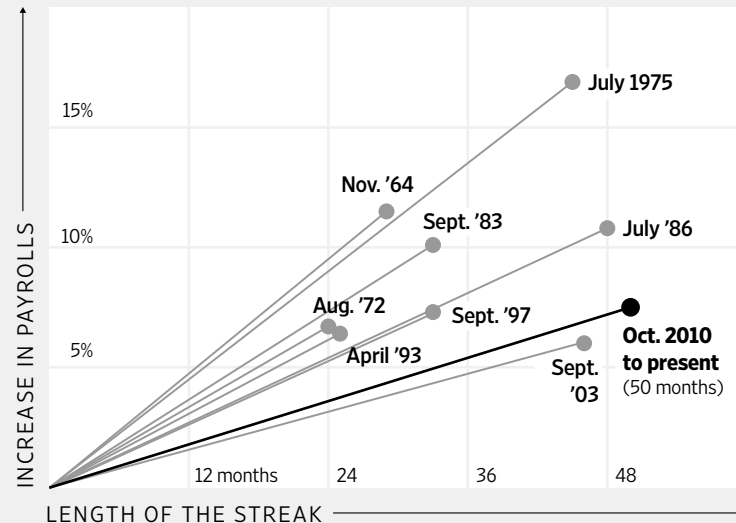
Rick Van Groll was laid off in July from a Land O'Lakes Inc. cheese plant in Denmark, Wis., following three decades, after the com-

Long Run

The current run of positive payroll gains is the longest since World War II, but the pace of growth has been slow relative to other such streaks, which may help explain why wage growth remains muted.

Longest streaks of U.S. payroll growth in the post-WWII era

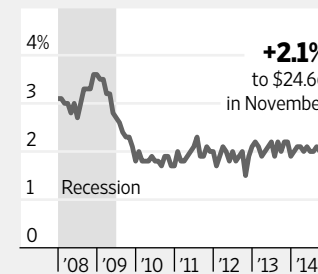
Streaks consisting of two years of consecutive growth or longer, labeled by the month each began



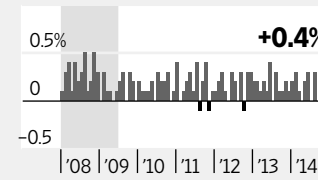
Source: Labor Department

Average hourly wages of all private employees:

Change from a year earlier



Change from a month earlier in the same hourly wage measure



Note: All figures are seasonally adjusted.
The Wall Street Journal

pany closed the facility.

Mr. Van Groll worried he wouldn't find another position with wages and benefits comparable to what he had as a veteran employee. But he started a new full-time job in mid-November as a maintenance worker for the local public-school district and said he makes just "a hair" less than he did before.

"There's a lot of \$13-, \$14-, \$15-an-hour jobs out there," said Mr. Van Groll, 52 years old, of Green Bay. "I got lucky."

The economy added 2.65 million jobs in the first 11 months of the year, more than every full year since 1999. The labor market's gains have complemented a pickup in broader economic growth since the spring.

Gross domestic product, the broadest measure of U.S. economic output, grew at a 3.9% seasonally adjusted annual rate in the third quarter, according to the Commerce Department's latest estimate. That followed growth at a 4.6% pace in the second quarter, a rebound from a weather-related contraction in the first quarter.

Economists expect somewhat slower growth in the fourth quarter. Forecasting firm Macroeconomic Advisers on Friday predicted GDP growth of 2% in the final three months of the year.

Still, the U.S. remains a bright spot amid worries about a global slowdown across the eurozone, China and Japan.

November's robust job gains were led by the professional- and business-services sector, which added a seasonally adjusted 86,000 jobs including 23,000 temporary positions.

Retailers added 50,000 jobs as the holiday season ramped up. The health-care sector gained 29,000 positions last month. Manufacturers added 28,000 jobs and construction employment rose by 20,000. Government payrolls rose by 7,000.

Wages are jumping in pockets of the labor market where skills are scarce. Honest-1 Auto Care, an Arizona-based chain of more than 50 auto-repair shops, is paying top dollar to attract mechanics amid a shortage of trained workers.

"Everything from signing bo-

nuses to toolbox bonuses to guaranteed training dollars...to higher pay and benefits are having to be put on the table like they weren't before," Chief Operating Officer Rissy Sutherland said.

But high wage growth largely remains the exception. Exact Sciences Corp. has grown to 360 employees from 100 at the start of 2014, and it's on track to top 400 workers by year's end, Chief Executive Kevin Conroy said. The company, based in Madison, Wis., this year launched a colon-cancer screening test, Cologuard, and has hired laboratory technicians, customer-service representatives and salespeople.

In a testament to widespread underemployment, Mr. Conroy said, he hasn't had to offer aggressive pay raises to attract workers. "There's still some slack in the labor market even here in Madison, where unemployment is hovering around or even below 4%," he said. "We have not felt the need to compete on wages in order to recruit people."

—Eric Morath
contributed to this article.

GOP Takes Smoother Path to Fund Government

By KRISTINA PETERSON

WASHINGTON—House Republican leaders are displaying a trait seldom seen in this Congress: efficiency.

The GOP-controlled House appeared on track to pass this week a measure keeping the government running after its current funding expires on Dec. 11, with few detours or delays to appease the party's conservative wing.

As part of their strategy, House GOP leaders allowed a vote on a bill seeking to prevent President Barack Obama from shielding millions of illegal immigrants from deportation. It passed 219-197, but the Democratic-controlled Senate is expected to ignore the bill and the White House said Mr. Obama would veto it in any case.

But the vote on that measure, from Rep. Ted Yoho (R., Fla.), helped channel the partisan fight over immigration policy away from the spending measure needed to keep the government running. The bill gave the most conservative Republicans a vehicle for registering their displeasure over Mr. Obama's actions.

Democrats, who may later support the appropriations bills cur-

rently under bipartisan negotiations, attacked Mr. Yoho's bill as a GOP overreaction to the president's policy.

The relatively straight path from the House GOP's closed-door discussion of their options Tuesday to next week's passage of a bipartisan spending bill would stand in contrast to the run-up to the October 2013 partial government shutdown. Last fall, the House and Senate lobbied bills between the chambers, as Republicans sought to strip funding for the 2010 health-care law and Democrats insisted on restoring it.

"It's been a much smoother pathway this time," said Rep. Charles Boustany (R., La.) "A number of members have learned that taking that shutdown approach was not really that productive. We're now taking a more strategic approach."

Facing a similar fiscal deadline this month, the House is expected to vote next week on a measure tying together 11 spending bills to fund the government through September 2015. To give Republicans an opportunity to target immigration funding next year—when they control both chambers of Congress—funding for the Homeland Security Department would be ex-



Speaker John Boehner expects Democratic support for spending bill.

tended just until early next year.

House Speaker John Boehner (R., Ohio) defended his approach Thursday. He predicted the spending bill would pass with Democratic support and struck a pragmatic tone in discussing Republicans' "limited options" to block Mr. Obama's plan.

"We think this is the most practical way to fight the president's action," he said, adding that Republi-

cans would be better positioned next year to challenge the president on immigration. Mr. Boehner said he didn't expect deviations from his course of action that incorporated suggestions from lawmakers, including ones "gripping the most."

"We've laid out a reasonable course of action," Mr. Boehner said. "Frankly, I'm pretty comfortable with where we are."

The strategy hasn't satisfied the most conservative House Republicans, and there is a possibility it could derail. GOP leaders this summer were forced to pull from the floor a bill dealing with the surge of young illegal immigrants when conservative objections threatened to sink the legislation.

"It's looking less and less likely there'll be any significant response at all to the president's executive amnesty," said Rep. Tim Huelskamp (R., Kan.), who said trying to block Mr. Obama's plan next year would be too late. "It'll be a done deal by then."

To pass the latest spending bill, GOP leaders may need some Democratic votes. Democrats have said their support depends on the contents of the spending measure, still under negotiation and expected to be released early next week.

Democrats Thursday largely focused on the first part of Mr. Boehner's plan, attacking the immigration bill passed by the House. "I will not bring this bill up for a vote in the Senate since it tears families apart while doing nothing to fix the real problems we face," Majority Leader Harry Reid (D., Nev.) said.

U.S. NEWS

Afghan Leader Aims to Slow Drawdown

By JULIAN E. BARNES
AND ADAM ENTOUS

TACTICAL BASE GAMBERI, Afghanistan—Afghan President Ashraf Ghani is pushing the U.S. to slow its drawdown of forces in the next two years, a move that threatens to put the Obama administration in a bind as it seeks to end large-scale military involvement in Afghanistan.

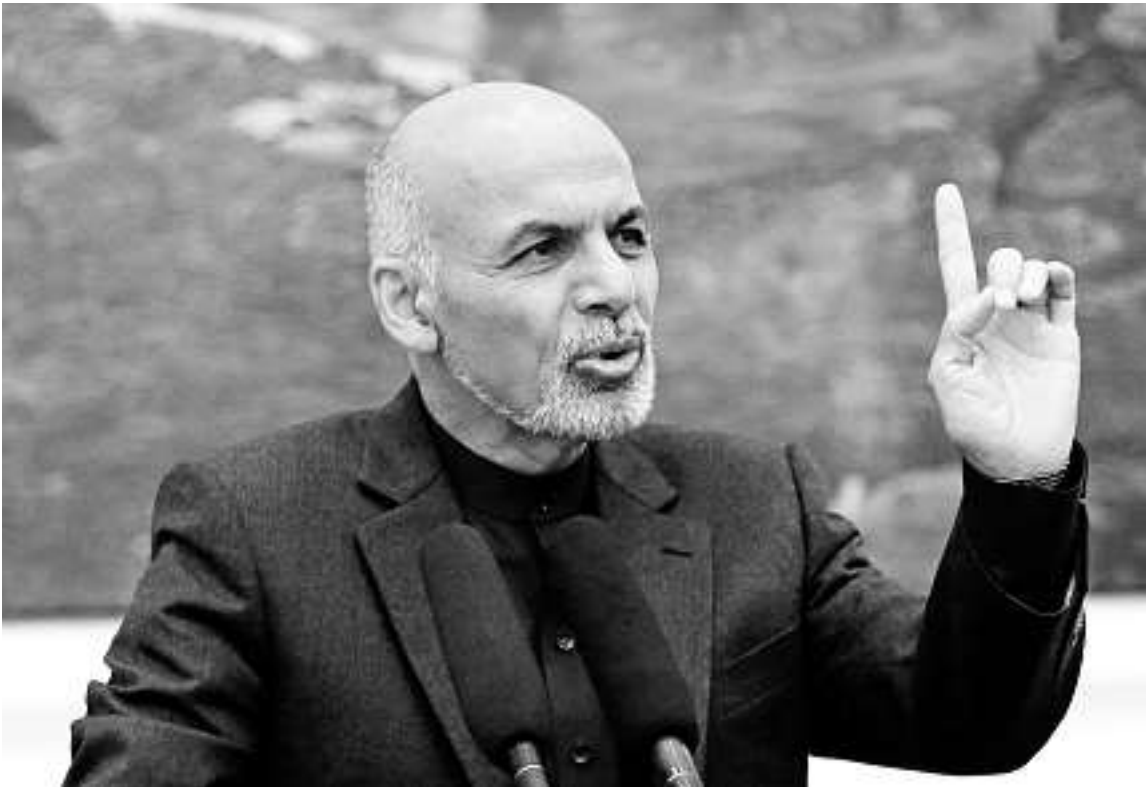
Mr. Ghani in a Saturday meeting with Secretary of Defense Chuck Hagel hinted that he would like to see a slower withdrawal. U.S. officials said the Afghan president in other conversations with U.S. officials has made plain his hope that the U.S. will alter its plans and keep a higher number of troops in the country.

U.S. defense officials said Mr. Ghani on Saturday didn't make a formal request. He could do so when he visits Washington—a trip expected to take place early next year.

The Pentagon is hoping to head off a formal request from the new leader by emphasizing the flexibility commanders have over when to withdraw forces, according to U.S. officials. Mr. Hagel said Saturday the U.S. will keep as many as 1,000 extra troops in Afghanistan over the next few months while North Atlantic Treaty Organization allies get their forces in place. In addition, the top international commander in Afghanistan, Army Gen. John Campbell, has the authority to wait until the last weeks of 2015 to shrink the force.

Still, it isn't out of the question that Mr. Ghani could persuade U.S. officials to make further changes.

Defense and administration officials want to show cooperation with Mr. Ghani, who has built credibility in Washington by accommodating U.S. requests, such as signing the agree-



President Ghani speaks during a joint news conference with U.S. Defense Secretary Chuck Hagel in Kabul, on Saturday.

ment to allow operations by international military forces. That stands in contrast to U.S. relations with Mr. Ghani's predecessor, Hamid Karzai, and U.S. officials want to avoid any similar breakdown.

U.S. officials don't want to alter the policy set by President Barack Obama, according to defense officials, which anticipates cutting the number of active-duty troops in the country from 9,800 to 5,500 by the end of 2015. By the end of 2016, the force is supposed to shrink to just a few hundred at the embassy.

By staying longer, the U.S. thinks it will undermine its efforts to have the Afghan military do more on its own—to build up its independence and ability to operate without American assistance.

"They helped write the plan and they understand it better than anybody, because they want the capability to do it on their own without us," said Mr. Hagel, speaking to the press during a visit to Tactical Base Gamberi, one of the four regional training hubs the U.S. and NATO have kept open around Afghanistan. Afghan of-

ficials had no immediate comment.

On Saturday, Mr. Ghani went out of his way to praise the sacrifices of Americans who have been killed or injured in the Afghan war, a gesture appreciated by U.S. military leaders. Gen. Campbell said the switch from Mr. Karzai to Mr. Ghani was "like a night-and-day change."

Gen. Campbell said he would tell Mr. Obama and top military leaders if he needed more forces for longer. He also added he still was developing an understanding of the capabilities he had on hand. "I am not there

yet. I have to see what I can do with 9,800," he said.

TB Gamberi, in Laghman province, is home to Train, Advise, Assist Command-East, a new military structure put in place for the new U.S. mission that begins in January. Mr. Hagel visited for briefings from military leaders and to speak with troops.

Officials said the new commands will focus less on front-line tactics—Afghan forces have built up a measure of success there. But the military still struggles with key logistics programs, including supply and maintenance.

Mr. Hagel was asked by both soldiers and the media about the similarities between the Iraq withdrawal in 2011 and the plan to withdraw most U.S. forces from Afghanistan by 2017.

He mostly rejected the comparison, noting the Iraqis didn't want to keep a U.S. presence while the Afghans had actively called on the U.S. to stay. U.S. officials said the fact that the Afghan government wants U.S. forces to stay means that they will work with American forces.

By focusing on helping the Afghan government improve the professionalism of their officer corps and their logistical abilities to maintain their equipment and supply their troops, the U.S. hopes to avoid two problems that caused Iraqi forces to crumble in the face of the offensive by Islamic State militants during the past two years.

Mr. Hagel said it was important for the U.S. to spend the next two years "working ourselves out of a job."

"That is the whole point of this," Mr. Hagel said. "This will be 15 years at the end of 2016 that we have an active military role in Afghanistan."

Colleges Work to Streamline Course Credit Counts

By MELISSA KORN

Colleges are trying to make sure students understand a basic math lesson: 120 credits equals a bachelor's degree.

As student-loan debt hovers near all-time highs and operational costs for colleges continue to rise, administrators are pushing to get students through their undergraduate educations more efficiently, particularly at public institutions.

Full-time students complete four-year degrees with an average of 134 credit hours, according to Complete College America, a nonprofit focused on boosting college-graduation rates. That is well over the minimum of 120 hours—or about 15 credits per semester—required by most undergraduate degree programs.

That, in turn, means many students don't graduate after the typical four years, which can weigh on a school's reputation and a student's wallet.

A report from Complete College America called four-year graduation timelines a "myth," noting that less than one-fifth of bachelor's degree students at nonflagship campuses of public schools graduate on time, while just over one-third of those at schools' flagship campuses do.

Now, about half of states cap or plan to limit the number of credit hours that public institutions can require for a bachelor's degree.

Others are charging students extra for taking classes over certain limits, while schools are trying to do a better job of alerting students

when they could have trouble completing enough credits in their major to finish on time.

"The focus is to get students to, and through, college in a reasonable amount of time," said Mila Jasey, a New Jersey assemblywoman who co-sponsored a bill working its way through that state's legislature that would cap most public-college degrees at 120 credits.

Giving students more than four years to get a college degree "is a luxury we can't really afford any-

more."

Students often overload on credits because they transferred schools, changed majors or took classes that struck their fancy but didn't actually count toward any requirements.

While some level of experimentation is expected and even encouraged in college, overweight transcripts can drive up expenses for both students and institutions and keep others from gaining access to needed classes.

Morgan Dedmon, 21 years old, started at the University of Texas at

Dallas with about 30 credits under her belt thanks to dual-enrollment high-school courses and Advanced Placement exams. She spent nearly two years racking up about half the credits needed for a 128-credit electrical-engineering degree, but found it "exponentially" more difficult as she progressed, and she grew more interested in other subjects.

She now plans to graduate in the spring with a degree in arts and technology after completing a whopping 161 credits—including many she

doesn't need for her planned degree.

"They all ended up being useless electives now that I've switched," said Ms. Dedmon.

A number of states, including North Carolina, Texas and Florida, impose financial penalties on students who enroll in many more classes than they need.

Small changes can make big a difference.

The Campaign for College Opportunity, which promotes college success in California, estimates that reducing median credits at the California State University system to 134 from 135 would free up enough funds to enroll more than 3,200 additional students.

At Georgia State University, a new tracking system to make sure students are taking the right classes helped cut the average number of credits to 138 from 141 in one year, saving students the equivalent of \$4 million in tuition and fees, estimated Vice Provost Timothy Renick.

Aundrea Nattiel, a Georgia State junior, is on her fifth declared major, sociology. When she decided her previous major, psychology, wasn't for her, she told her adviser she wanted to switch to a business degree.

But the adviser found that she could get a sociology degree with 20 fewer credit hours than she would need for business. Now, she is on track to graduate only one semester late, in fall 2016.

"School is cool, but I don't want to be here for six years trying to finish my degree," Ms. Nattiel said.

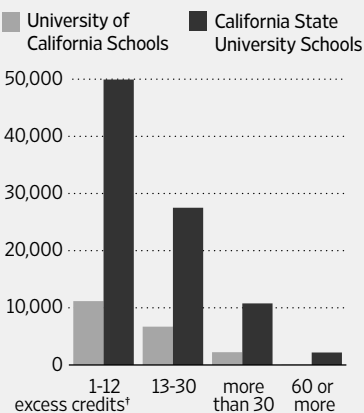
Obstacle Courses

Texas is among several states trying to drive down the number of credit hours students accumulate by graduation. Reducing excess credit hours could result in significant savings, according to one study of California's public university systems.

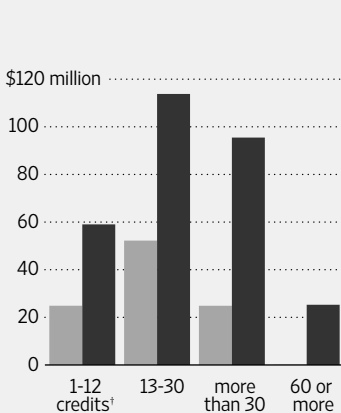
Number of credit hours at graduation at higher-education public schools in Texas*



Number of degree earners



Public cost of excess credits**



*Does not include credits earned through AP exams or during high school.

†For students who graduated in 2011. **Calculations are based on 2008 public cost figures of \$371 per credit in UC system and \$197 in CSU system.

Sources: Texas Higher Education Coordinating Board; Georgetown University Edumetrics Lab

The Wall Street Journal

WORLD NEWS



European Pressphoto Agency

Residents wade through floodwater Sunday in Borongan after a typhoon pummeled the eastern and central Philippines. It was expected to hit Manila on Monday.

Typhoon Lashes Philippines

By CRIS LARANO
AND TREFOR MOSS

LEGAZPI CITY, Philippines—The people of southern Luzon expressed relief Sunday night as Typhoon Hagupit, which they had feared might be a repeat of last year's deadly supertyphoon, largely spared their region.

Just two days earlier, forecasters had warned of a crippling direct hit on the populous region.

"We're happy, because we were afraid it would be like Yolanda," said Jennifer Amonuevo, one of 650 people in Legazpi Port Elementary School in Legazpi City. "Yolanda" is how locals refer to last year's Super-typhoon Haiyan.

In Eastern Samar, where Hagupit made landfall on Saturday night, early reports suggested that the number of casualties was relatively low, with one dead—though smashed communications made it hard to assess the true extent of the damage.

Haiyan killed more than 6,300 people, largely with its huge storm surges in the central Philippines, where Hagupit, known locally as "Ruby," also hit.

Hagupit isn't expected to leave the Philippines until Thursday. Its slow pace—just 10 kilometers an hour—gives it more opportunity to pour heavy to torrential rains. Those can unleash flood and landslides.

Hagupit tore off roofs, knocked out electricity and uprooted trees. There were also poignant moments: A doctor, talking on the telephone from afar, coached the delivery of a baby, according to local TV station ANC. She will be named Ruby.

On Sunday night, Hagupit clocked a maximum sustained wind of 140 kilometers an hour and gusts of up to 170 kilometers an hour.

On Monday, it was expected to approach Manila, where residents of vulnerable neighborhoods began moving to shelters.

On Sunday, Interior and Local

Government Secretary Manuel Roxas traveled to Dolores, the coastal town where Hagupit first struck the Philippines at 9:15 p.m. on Saturday, and told a local radio station that there was extensive damage in the town.

"The good news," Mr. Roxas said, is that only one of the 10,000 families in Dolores, caught by a falling tree, is known to have fallen victim to the typhoon.

Mr. Roxas said the main highway had been cleared of fallen trees, landslides and other debris, allowing the faster flow of relief supplies.

Presidential spokesman Edwin Lacierda, who was also in Eastern Samar, said damage to houses and infrastructure was brought on by strong winds and not caused by storm surges.

In Legazpi City, evacuees expressed relief that Hagupit hadn't proved as calamitous as initially feared.

Ms. Amonuevo, a single mother of three who works in a laundry, also

said she was anxious about the family home, situated close to the sea.

"It's possible it's been washed away, we just don't know," she said, her voice trembling.

Sorsogon, 60 kilometers east of Legazpi, also experienced little damage, but that was of little consolation to the hundreds of people left stranded on the outskirts of the town awaiting the resumption of ferry services from southern Luzon to Samar. Around 150 buses and trucks were parked up near Sorsogon City Hall on Sunday, waiting for a break in the weather.

"We're Filipinos, we're a typhoon-prone country," said Cecilio Meris, one of the bus passengers. "It's part of life for us to be stranded."

Jet Cordero said he and his 41 fellow bus passengers had set off from Manila on Wednesday, bound for the southern island of Mindanao, but had now been stranded in Sorsogon for four days in deteriorating conditions.

Saudis Hold Suspects in Terror Plot

By AHMED AL OMRAN

RIYADH—Saudi Arabia said on Sunday that it had arrested 135 suspects who were allegedly plotting terrorist attacks inside the kingdom.

A Ministry of Interior spokesman said 40 of the suspects have joined terrorist organizations abroad, where they received training to use weapons "then return home to take actions that destabilize security."

The majority of those arrested are Saudi nationals. But 16 Syrians and three Yemenis were also among the suspects, the spokesman said. The rest come mainly from Egypt, Lebanon, Afghanistan, Ethiopia, Bahrain and Iraq.

The announcement comes as the country steps up its security measures against attacks by Islamic State. The group declared its intent to attack Saudi Arabia, which participated in U.S.-led airstrikes targeting its militants in recent weeks.

Authorities here have tried to curb travel by would-be jihadists to Syria and Iraq for fear they would return home to wage a campaign similar to one by al Qaeda militants in the mid-2000s aimed at toppling the Western-allied monarchy.

"We are facing a new wave of terrorism," said Gen. Mansour Al Turki, interior ministry spokesman. "A wave that is dirtier than the previous one."

The Saudi government said in November that the leader of an attack that targeted a small Shiite village in the oil-rich eastern region of Al Ahsa and killed eight people was connected to Islamic State. Seventy-seven suspects were arrested in connection with the attack, including 32 who had previously been jailed on terrorism charges.

"The Saudis have expended a lot of money and effort into securing high-value government, security and industrial installations and those are not likely to be targeted by Islamic State," said Fahad Nazer, terrorism analyst at Virginia-based JTG Inc. and former political analyst at the Saudi Embassy in Washington.

Falling Oil Prices Spur Policy Makers to Bet on Growth

Continued from first page
Central Bank President Mario Draghi declared after the bank's monthly meeting last week.

Some economists warn that the nearly 40% plunge in crude-oil prices in recent months is more a harbinger of gloom as Europe flirts with recession, Japan tries to recover from its own slump and China's slowdown risks morphing into a steeper pullback. Indeed, historically, sharp drops in oil prices tend to be associated with recessions as energy demand collapses.

This time, though, a range of supply-boosting factors is shifting the calculus for many officials and economists—from advanced drilling techniques to a revival in Libyan oil supply and a bid by some Middle East producers to price competitors out of the market.

"This time is different," said Guy Caruso, a former head of the U.S. Energy Information Administration and a senior adviser at the Center for Strategic and International Studies.

Whether the recent price tumble is driven more by a supply glut or a drop in demand could determine the direction of the global economy in the coming year.

Falling energy prices are clearly hurting major oil exporters such as Iraq, Algeria and Nigeria that rely heavily on petroleum revenues. It is particularly bad news for countries such as Russia, Venezuela and Iran already facing deep economic problems.

But for major oil importers such as Japan, Italy and Germany, the IMF calculates the price plunge since June could add nearly a percentage point of gross domestic product to their economies. The IMF is raising its forecast for U.S. growth next year to 3.5% from its last estimate of 3.1%, in part because of expected lower energy costs.

"There will be winners and losers, but on a net-net basis, it's good news for the global economy," said IMF Managing Director Christine Lagarde at The Wall Street Journal

CEO Council annual meeting last week.

The fund attributes roughly 80% of the fall in oil prices to supply-side causes, such as decisions by the Organization of the Petroleum Exporting Countries and fuel-efficiency standards, and only 20% to declining demand from slowing growth.

'It's good news for the global economy,' said Christine Lagarde.

J.P. Morgan Chase economists put the ratio lower: 55% because of supply and 40% from weaker emerging-market growth. The bank still estimates, however, that the price decline could add 0.7 percentage point to global growth over the next two quarters.

Part of the boost comes from lower transportation and manufac-

turing costs, particularly for energy-intensive industries such as airlines and steelmaking. The primary benefit is more cash in consumers' wallets as they spend less of their paychecks fueling their vehicles, spurring more consumer spending.

Research group IHS Global Insight says the average U.S. household should have an extra \$750 in its pockets over the next year compared with the last 12 months, if prices hold.

One risk for policy makers: Viewing the drop in oil prices as a net positive could cloud an underlying sluggishness in the global economy. Key emerging markets from Brazil to South Africa to India have been struggling for more than a year.

"China is the big issue," said Kevin Book, managing director at ClearView Energy Partners. Mr. Book is skeptical that growth in oil demand next year will come close to the International Energy Agency's estimate of 1.1 million barrels a day. The reason: slower growth than currently expected from the world's No.

2 economy. "And weakness in one place generally portends weakness elsewhere," especially in Europe, he said.

"It seems unreasonable to think that the industrial engine of the emerging markets is somehow disconnected from the consuming engine of the developed world," Mr. Book said.

Most previous major oil-price drops accompanied recessions, or at least signaled downturns. A series of contractions in the U.S. economy and other major powerhouses of the global economy in the early 1980s are blamed for sending inflation-adjusted prices from a high of \$116 a barrel in April 1980 to a 13-year low of \$25 by 1986. Prices also skidded in the wake of the Asian financial crisis in the late 1990s and the 2008 global financial crisis.

Economists generally agree the current drop is partly due to anemic growth in Europe and a slowdown in China. But the IEA and other experts say outsize oil production is largely behind the decline.

WORLD NEWS

Two Hostages Killed In Yemen Rescue Effort

Continued from first page

after AQAP warned in a video released Thursday that it would kill Mr. Somers if U.S. forces attempted another “foolish” rescue attempt. In the video, an AQAP commander threatened to kill Mr. Somers by the end of the week if the group’s unspecified demands weren’t met.

Although AQAP’s requests to the U.S. government are unknown, the group frequently asks for ransom payments or prisoner exchanges. Under U.S. law, ransom payments to terrorist groups are illegal, and American officials have threatened victims’ family members with legal action in the past if they meet kidnappers’ requests.

South African charity Gift of the Givers featured the news of Mr. Korkie’s death on its website Saturday.

“We received with sadness the news that Pierre was killed in an attempt by American Special Forces, in the early hours of this morning, to free hostages in Yemen,” said the charity’s founder, Imtiaz Sooliman.

Mr. Obama offered his condolences to the families of the hostages.

“The United States will spare no effort to use all of its military, intelligence, and diplomatic capabilities to bring Americans home safely, wherever they are located,” Mr. Obama said in a statement. “And terrorists who seek to harm our citizens will feel the long arm of American justice.”

Mr. Somers was born in the U.K. and lived most of his adult life in the U.S. He was kidnapped in September 2013 in the Yemeni capital San’a as he left a grocery store one evening, a friend said.

Mr. Somers first moved to Yemen in 2010 to teach English. As the Arab Spring protests enveloped the country, he began taking photos to document the revolution in San’a, turning his lifelong hobby of photography into a budding career as a photojournalist.

“He was one of the kindest people I’ve ever known. He cared about Yemenis more than any other journalist I’ve ever met,” said an American friend of Mr. Somers’s from her home in San’a. “He dedicated the last years of his life to the people in Yemen. He never left the country in that time to see his family. He was really dedicated to documenting the revolution and its aftermath.”

Mr. Sooliman said Mr. Korkie and his wife, Yolande, were taken hostage in Taiz, Yemen, in May 2013. Ms. Korkie was released in January of this year. Mr. Sooliman said his group had struck a deal for Mr. Korkie to be released in a matter of days.

“The psychological and emotional devastation to Yolande and her family will be compounded by the knowledge that Pierre was to be released by al Qaeda tomorrow. A team of Abyan leaders met in Aden this morning and were preparing the final security and logistical arrangements, related to hostage release mechanisms, to bring Pierre to safety and freedom,” he wrote.

A U.S. defense official said the U.S. military had no information on any deal to free the South African hostage or on who was being held by the militants along with Mr. Somers.

—Patrick McGroarty
in Johannesburg
contributed to this article.

Syria Says Israeli Planes Strike Damascus Suburbs

Syria’s government said Israeli fighter jets struck two sites in the Damascus suburbs on Sunday, including an area near the capital’s international airport.

By Nour Malas in Beirut and
Nicholas Casey in Tel Aviv

Syria’s state news agency said the airstrikes hit two “safe areas,” an apparent reference to areas where there is no fighting in the country’s civil war. One was in the suburb of Dimas west of the capital and another near the airport and no casualties were reported.

Israel’s military had no comment. A U.S. defense official confirmed the operation was Israeli but provided no other details.

Israeli jets have struck targets inside Syria at least four times since an uprising turned civil war erupted in 2011, according to U.S. officials. Israel has targeted stores of advanced weapons or convoys before, with the aim of preventing arms transfers to Hezbollah, the militant group in Lebanon allied with Syrian President Bashar al-Assad’s regime and with Iran, U.S. officials say.

Hezbollah’s Al Manar television also reported the attack. Syria and Israel rarely confirm such strikes. In May 2013, the Syrian government acknowledged and condemned a series of Israeli strikes on military in-

stallations on the outskirts of the capital. One of those strikes, according to Al Manar at the time, hit an arms depot in Dimas, the suburb reportedly hit on Sunday.

Syria and Israel have exchanged fire numerous times in the past year, mainly at the armistice lines along the disputed Golan Heights.

The area, which Israel captured from Syria in the 1967 Middle East war and later annexed, has remained mostly quiet in recent years. But battles between rebels and the Syrian government have resulted in errant fire across the border.

On Sept. 24, Israel said it shot down a Syrian fighter jet near the border after it briefly crossed into Israeli airspace.

On June 22, Israeli fighter jets entered Syria and hit nine targets near the border, including what the Israeli military said was a command center. Israel said it was retaliating for an attack earlier that day where an Israeli teenage boy and two other people were injured while delivering water on their side of the border.

In 2007, Israeli airstrikes hit a suspected nuclear site on Syria’s eastern edge. The United Nations’ International Atomic Energy Agency eventually said it believed the site was an attempt at a covertly-built nuclear reactor.

—Felicia Schwartz
contributed to this article.



Luke Somers, pictured in April 2013; U.S. officials aren’t sure what alerted the militants to the approaching rescue team

How the U.S.’s Raid In Yemen Went Wrong

By ADAM ENTOWS

Under the cover of night, U.S. commandos approached the walled compound on foot, hoping to catch unawares the militants holding two hostages, including American Luke Somers.

Then, less than 100 yards from their target, something went terribly wrong. A noise, maybe a dog bark, alerted the militants to the raiders, according to U.S. officials briefed on the operation. The rescue team’s biggest advantage—the element of surprise—was lost in that moment, and the shooting started.

When the dust settled 30 minutes later, the roughly 40-man Special Operations team emerged from the compound carrying Mr. Somers and a South African hostage, both badly wounded. The medics couldn’t save them, and the two were pronounced dead after their evacuation.

The operation took place after midnight Saturday local time in a remote area of southern Yemen. White House officials knew the operation would be risky. They also didn’t see any better options.

U.S. intelligence officials had assessed that militants with al Qaeda in the Arabian Peninsula, or AQAP, who were holding Mr. Somers, intended to kill him later that day, in keeping with a death threat they had issued earlier in the week.

“They were serious,” a senior administration official said of AQAP’s threat. “They were going to execute him on Saturday.”

The failed raid is a visceral and tragic reminder of the limits of Special Operations forces as a tool against terror groups. While the 2011 raid that killed Osama bin Laden was a spectacular success, others have been less so, including a failed attempt earlier this year to spring U.S. hostages held by the militant group Islamic State, as well as a previous effort to free Mr. Somers.

The following reconstruction of the failed raid was based on interviews with senior administration and military officials.

Officials said the previous Somers rescue attempt, which occurred late last month, led U.S. intelligence agencies to the compound in southern Yemen that the Special Operations team raided on Saturday.

The intelligence crystallized for the U.S. military late on Thursday. The Pentagon’s Joint Special Operations Command wanted to conduct the mission the next night. Defense Secretary Chuck Hagel, and then, President Barack Obama, approved the raid on Friday morning, before Mr. Hagel left on a trip to Afghanistan, according to a defense official.

U.S. officials briefed Yemen’s president and won his permission to proceed with a raid on Yemeni territory.

To try to preserve the element of surprise, the rescue team landed about five miles away and hiked to the targeted compound through hilly, rough terrain, officials said.

The moon overhead was diminishing in brightness at the time of the operation, which took place at around 1 a.m. Saturday, or 5 p.m. Eastern time Friday. Usually, military planners prefer to carry out such stealthy missions on nights with little to no moonlight.

A reminder of the limits of Special Operations forces as a tool against terror.

For days, U.S. intelligence agencies had kept close watch on the location, figuring out how many militants were there and fine-tuning plans for the raid. The large Special Operations team approached without incident to within about 100 yards of the outer compound wall when their cover was blown.

U.S. officials aren’t sure what alerted the militants inside the compound to the approaching rescue team, but they believe the militants heard a noise. AQAP militants in the compound immediately opened fire.

Military officials don’t believe the militants were tipped off about the approach of the team, but believe AQAP was on high alert and “on edge” because of the November attempt to rescue Mr. Somers, the defense official said.

The large outer compound, in a remote area in Yemen’s Shabwah governorate, was divided into four smaller interior compounds. The U.S. knew the hostages were being held in a small building in one of those inte-

rior compounds. That was the main target for the commandos.

U.S. officials knew one of the hostages being held there was Mr. Somers. They didn’t know who the other was until after the raid was completed. He was later identified as South African Pierre Korkie.

Immediately after the firefight broke out at the entrance to the main compound, one of the AQAP militants rushed inside the building where the hostages were being held, according to U.S. officials briefed on the operation.

The militant was inside for only a few moments. He then ran out. U.S. officials couldn’t see what was happening inside the building but believe that is when the two hostages were shot.

U.S. officials said they don’t believe stray bullets fired by the U.S. rescue team could have reached the hostages because there was a wall separating the commandos from the building where they were held.

When the Special Operations team, which included medics, entered the building, the two hostages were still alive. The medics immediately started to work to stop the bleeding.

Less than 30 minutes after the firefight first broke out, the two wounded hostages were evacuated under fire from the compound and loaded onto a nearby V-22 Osprey aircraft, which had a surgical team onboard.

One of the hostages died on the Osprey.

The other died on an operating table aboard the USS Makin Island, an amphibious assault ship that was positioned just off the coast of Yemen.

U.S. officials declined to identify which of the hostages died on the Osprey and which died on the ship.

The U.S. military believes about six AQAP militants were killed during the firefight, but they don’t know for sure. The U.S. thought some civilians might have lived inside the compound, but the commandos didn’t report encountering any during the raid, officials said.

The commandos emerged unscathed.

After the raid, Lisa Monaco, the White House’s top homeland-security and counterterrorism adviser, informed Mr. Obama that the hostages had been killed.

IN DEPTH

Cancer Super-Survivors Charter New Turf, Fuel Hope

By Ron Winslow

Tom Telford's stomach ached. The New York City teacher had been drinking cup after cup of coffee as he labored to finish year-end grading and coach his high-school baseball team through the playoffs. He worried he might have an ulcer.

When school let out, though, Mr. Telford looked forward to relaxing on a 25th anniversary cruise with his wife. But once in the Caribbean, he struggled to swim and climbing from one deck to another exhausted him. Back at home, he collapsed while running a TV cable in his bedroom.

His family doctor told him he had lost two pints of blood. Further tests revealed a tumor the size of a quarter on his small intestine. He had surgery at Memorial Sloan Kettering Cancer Center, followed by months of chemotherapy. But the disease spread to his liver and kidneys. The diagnosis: Stage 4 melanoma, a skin cancer typically fatal within a year.

"Death is not an option," he told his doctor.

Nine years later, against all odds, Mr. Telford is still alive. What saved him was an experimental immunotherapy drug—a medication that unleashes the body's own immune system to attack cancer.

When his tumors began melting away more than eight years ago, Mr. Telford's good fortune was largely an anomaly amid a mostly dreary landscape for advanced cancer. But his remarkable survival caught the attention of researchers, who began to realize that the way immunotherapy drugs were affecting tumors was unlike almost anything seen with conventional treatments.

Today Mr. Telford is among a growing group of super-survivors who are transforming the world of oncology. In both total numbers and duration of survival, they are charting new territory. And they are reviving hopes that the long-maligned idea of enlisting the power of the immune system against cancer may help to turn the tide against some of the most lethal and resistant forms of the disease.

"It's the most exciting thing I've ever seen," says David Lane, scientific director of New York's Ludwig Institute for Cancer Research. "It's the long-term survival of people who have advanced disease. This is very unusual."

Cancer immunotherapy comes in several forms. The drugs sparking the most interest are called checkpoint inhibitors. They work by releasing the natural brakes on the immune system, enabling its foot soldiers, called T cells, to attack tumors.

It is hard to know how many patients whose cancers have metastasized, or spread, have enjoyed sustained survival following immunotherapy treatment. An analysis of 4,846 advanced melanoma patients treated with one checkpoint inhibitor—**Bristol-Myers Squibb** Co.'s Yervoy—found that 21% were still alive three years later. That amounts to more than 1,000 people, most of whom experts say almost certainly would have died otherwise. Especially striking is how good the long-term prospects were for people who survived at least three years.

"The people that make it after three years don't die of melanoma," says James Allison, head of immunology at MD Anderson Cancer Center in Houston, whose seminal discovery about the immune system and cancer in the mid-1990s laid the groundwork for many of the current advances.

Newer drugs that work similarly to Yervoy, but on different immune-system



Kieran Keener for The Wall Street Journal (5)

Beneficiaries of immunotherapy (clockwise from top): Tom Telford of Seaford, N.Y.; Barry Nelson of Boston; Sharon Belvin of Williamsport, Pa.; Richard Murphy of Marshfield, Mass.; and Susan Reed of Los Angeles, with her husband. They are among super-survivors who are transforming oncology.

brakes, are getting even better early results and are extending the benefits beyond melanoma to other cancers.

Immunotherapy is still in its early stages, and more rigorous studies are needed. Oncology is filled with tales of advances that held promise only to be thwarted by cancer's uncanny ability to develop resistance to medicine's attacks. There isn't any assurance that the new immunotherapy will be different.

Researchers and drug makers are striving to overcome huge obstacles to a lasting cure. For one, most patients don't respond the way the super-survivors have, and researchers are just beginning to understand why. Another mystery is why some patients relapse while remaining on therapy while others go into prolonged remission after undergoing just one course of treatment.

Most experts believe it will take combinations of immunotherapy drugs—or combinations of immunotherapy with other can-

cer treatments—to optimize their impact. But finding safe and effective combinations is a daunting undertaking.

While side effects of the new drugs are relatively mild for some patients, others have developed potentially devastating complications caused by an out-of-control immune system. Some patients have died as a result. Researchers are devising ways to minimize such problems.

"It's extremely exciting that so many patients are responding" to checkpoint inhibitors, says Bert Vogelstein, director of the Ludwig Center at Johns Hopkins Kimmel Cancer Center in Baltimore. "But the reality is that most are not."

The drugs, which are costly to develop, are certain to fuel the debate about the cost of innovative drugs. Yervoy costs more than \$120,000 for a four-course treatment, while **Merck** & Co's Keytruda, approved in September for advanced melanoma, costs \$12,500 a month, or \$150,000 for a year.

More than 25 companies ranging from the pharmaceutical industry's biggest names to a group of startups are pursuing some form of immunotherapy.

Bristol-Myers's drug Yervoy, which is based on Dr. Allison's discoveries, blocks an immune system brake called CTLA-4. Merck's Keytruda inhibits a brake called PD-1. Bristol, **Roche Holding AG** and **Astra-Zeneca PLC** are among several companies also testing agents against checkpoint targets.

Another approach involves genetically modifying certain T cells outside the body, creating what are called CAR T cells, and infusing them back to attack targets on the surface of cancer cells.

Novartis AG, closely held **Juno Therapeutics Inc.**, **Kite Pharma Inc.**, and a collaboration between Bluebird bio and **Celgene** are pursuing this strategy. **Amgen Inc.** is developing yet another T-cell approach while several other companies are reviving efforts to develop cancer vaccines.

"I divide pharmaceutical companies into two categories," says Drew Pardoll, co-director of immunology at Johns Hopkins. "They're in immunotherapy up to their eyeballs, or they want to be."

The efforts are a departure from most current cancer treatments, including chemotherapy, radiation and the new crop of medicines that target genetic mutations underlying a tumor's growth. These strategies take direct aim at the tumor—generally to only limited effect in patients with advanced cancer. Even the recent excitement about genetically targeted drugs has been tempered by the ability of tumors to mutate and grow resistant to tailored attacks.

With immunotherapy, "We're treating the immune system, not the cancer," says Dr. Allison.

Richard Logan, a 59-year-old veterinarian in Ozark, Ala., embraced the alternative approach in 2009, soon after melanoma that had started as a bleeding mole on his back progressed to his lung and liver. He already had endured about a year of treatment with interferon, an immune-system booster with harsh side effects that left him exhausted.

In addition, his father had recently died of melanoma, succumbing about six months after the cancer had spread from its original site. "I pretty much knew the old treatments weren't going to be much help," he says.

An Internet search led him to the melanoma center at Boston's Dana Farber Cancer Institute. In July 2009 he enrolled in a trial there for a drug that later became Yervoy. Within two months, his tumors started shrinking and by that December, he says, "I felt pretty confident I was going to have extended relief from this disease."

Now nearly five years later, Dr. Logan says his cancer has stabilized. He remains on Yervoy, flying regularly to Boston for infusions. He rates the side effects on Yervoy as a "two or three" compared with a 10 on interferon. He continues to run his veterinary practice, saw his son graduate from college and recently remarried.

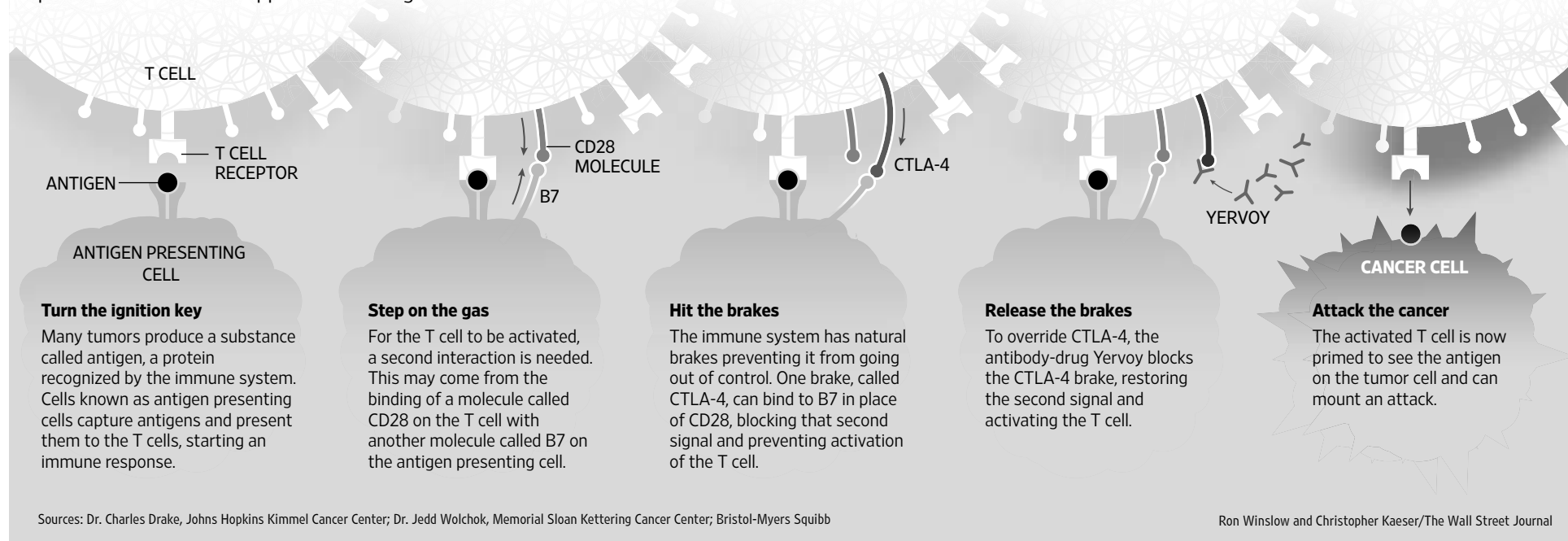
He doesn't use the word "cure" to describe his status, saying only that he is "confident" in how he is doing on the drug. "If this starts to pale, I'm keeping aware of whatever else is available out there," he says. "I'm pretty even-keel and take it as it comes."

Getting the immune system to "see" and attack tumors has stymied researchers for decades. Unlike, say, a flu virus—an invader that quickly catches the immune system's attention—a tumor cell may reflect only

IN DEPTH

An Innovative Approach Against Cancer

T cells are the warriors of the immune system, responsible for hunting down and destroying infected or abnormal cells in the body. But the immune system also has natural brakes, which can prevent an effective T cell attack. Researchers are developing strategies to override that process in cancer. One approach: blocking a molecule called CTLA-4.



“modest changes in cells that the body has been taught to leave alone and tolerate,” says Walter J. Urba, director of cancer research at Providence Cancer Center in Portland, Ore. Moreover, he says, “cancer cells are pretty smart and they change in ways that can avoid the immune system.”

For years, scientists thought the immune system didn’t recognize tumors at all. Then research on biopsy specimens revealed that T cells often succeed in infiltrating the environment around tumors, but either fail to mount an adequate response or hold the cancer at bay for years before finally being overmatched.

When the T cell does recognize the tumor, it amounts to an ignition switch for the immune response. But just “turning the key” isn’t enough. T cells generally need a second so-called co-stimulatory signal to become activated against the cancer. That is the gas pedal.

For two to three decades, immunotherapy efforts have focused on the gas pedal. Researchers and companies have tested vaccines that educate T cells to find cancer cells and developed treatments to boost activated T cells and direct them at vulnerable targets on tumors. Despite some success against relatively rare cancers, results have proved lackluster.

“No matter what you did, only 10% to 15% of patients seemed to get a benefit,” says F. Stephen Hodi, director of the melanoma center at Dana Farber.

The insight that changed the equation came from Dr. Allison. In the early 1990s, researchers racing to unravel how T cells function homed in on a molecule called CTLA-4. They had suspected it was a “gas pedal” that activated the immune system. Dr. Allison, then at University of California Berkeley, was among those who determined that it actually inhibited the immune response—it was a brake.

That led him to a question: Would blocking CTLA-4 with a drug—in effect, suppressing the suppressor—unleash the immune system to attack cancer?

He and his colleagues fashioned an antibody to CTLA-4. In a study published in *Science* in 1996, they showed that the strategy, which prevented the immune system from turning off, led to the eradication of tumors in mice.

Translating that discovery into an FDA-approved medicine took 15 years. After shopping the antibody to skeptical drug companies for two years, Dr. Allison joined forces with a small company called **Medarex** Inc., then in Princeton, N.J. The initial human studies were encouraging enough to draw Bristol-Myers into a collaboration with Medarex to mount a large-scale study.

Early results were less than impressive. Tumors shrank sufficiently in only about 10% of patients—no better than was seen in

other forms of immunotherapy, raising doubts the drug could be approved.

But researchers also noticed something unusual: Some patients were living much longer than expected, including some who had gone off therapy. Others reported feeling better even though their tumors hadn’t quickly responded by conventional measures.

One of them was Mr. Telford, the high-school teacher with advanced melanoma. In June 2006, with the encouragement of Jedd Wolchok, chief of melanoma and immunotherapy at Sloan Kettering, he enrolled in a study of the Bristol-Medarex anti-CTLA-4 drug. The protocol called for four treatments, one every three weeks. The goal: tumor shrinkage at 12 weeks.

It didn’t work. After Mr. Telford’s last infusion, his scans showed tumors in his liver had gotten much larger. Dr. Wolchok prepared to deliver the message oncologists dread: The drug wasn’t working and there weren’t any other options.

They are reviving hopes that the long-maligned idea of enlisting the power of the immune system against cancer may help to turn the tide against some of the most lethal and resistant forms of the disease.

But in the exam room, Mr. Telford told the doctor: “This is the best I’ve felt in months.”

When Dr. Wolchok insisted the scans showed no improvement, Mr. Telford recalls saying, “I don’t care what your scans say, I feel better.” His energy levels were up and his night sweats had stopped.

A mystified Dr. Wolchok told him to come back for another checkup in two months. This time, the tumors were getting smaller. By May 2007, his scans showed no evidence of cancer.

Mr. Telford remained on the drug until last December. He is essentially free of disease. Now 60 years old, he is still teaching and coaching baseball.

So exceptional was Mr. Telford’s case that he became known among immunotherapy researchers as “the liver guy,” Dr. Wolchok says. His experience “was a pivotal moment” that helped prompt Medarex and Bristol-Myers to change the primary measurement of the trial, Dr. Wolchok says. Instead of looking at how long the therapy kept cancer from progressing, a measure that can lead to approval of drugs for metastatic cancer, they opted to test for overall survival.

It took some 700 patients and extended the trial to 2010. In the end, fewer than 10% met standard criteria for tumor shrinkage. But 23% survived at least three years, making the drug the first to ever show a survival benefit in patients with advanced mel-

anoma. The drug, now owned by Bristol-Myers and known as Yervoy, was approved in 2011.

The challenge was to widen the benefit to more patients and more cancers.

For reasons of biology, melanoma is more vulnerable than most other tumor types to attacks by the immune system. For immunotherapy to become a mainstay of cancer treatment, it needs to prove effective against more tumors.

That is beginning to happen. Data presented at the American Society of Clinical Oncology meeting in June and at the European Society of Medical Oncology in September offered encouraging results for bladder, head and neck, kidney and other cancers. Checkpoint inhibitors are being tested in breast and pancreatic cancers, and Hodgkin lymphoma, multiple myeloma and other cancers.

The disease attracting intense interest is lung cancer, which causes more than 200,000 deaths a year in the U.S.

David Gobin, a retired Baltimore policeman, was diagnosed with lung cancer at 58. He lost much of his right lung to surgery and much of his spirit to aggressive chemotherapy, which failed.

In late 2010, he joined a trial at Johns Hopkins for an experimental Bristol-Myers drug that blocks the immune system brake called PD-1. The protocol called for a one-hour infusion every two weeks for two years.

Four months later, a scan showed his tumor had significantly improved. Remnants of the tumor still showed up on scans when his treatment ended after two years, but it hasn’t grown since.

“Every time we scanned him, things were decreasing,” says Julie Brahmer, his oncologist at Hopkins. “With the rate his disease was progressing back when I first met him, he shouldn’t be around.”

Mr. Gobin gets short of breath because of the lung surgery, and he needs to take frequent rests. He isn’t complaining.

Before being treated with the drug—now called nivolumab—he was twice told he had less than a year to live. He hasn’t taken the drug for 23 months.

“I still have a little cancer. It’s still sitting there,” he says. “It’s not doing anything.”

Most researchers believe that the key to expanding immunotherapy lies in combination treatments.

A 53-patient Bristol-Myers study com-

binning Yervoy and nivolumab resulted in a two-year melanoma survival rate of 79%, but that came at a cost of serious side effects.

Researchers also are experimenting with pairing such drugs with vaccines or with treatments such as chemotherapy, radiation and genetically targeted drugs. The hope is that attacking the tumor with these approaches will make it more visible to T cells, a necessary step if releasing the brakes is to have a significant effect on the cancer.

“Almost every combination is appealing in some way,” says Roy Herbst, chief of medical oncology at Yale Cancer Center, but “how to sort through all that is incredibly difficult.”

Richard Murphy, a father of three from Marshfield, Mass., didn’t know what a biopsy was when he was diagnosed in 2008, at 43, with a rare form of melanoma. He underwent two surgeries and several bouts of radiation and chemotherapy, but his tumors spread to his lung and surrounded his spine. He enrolled in a study of Yervoy in February 2011.

After his fourth treatment at Dana Farber, scans showed his tumors had shrunk. But by August, he says, “everything kind of had grown.” Dr. Hodi soon concluded the drug wasn’t working and took him off the study.

Dr. Hodi had another idea. His colleagues at Dana Farber had played key roles in identifying PD-1 as an immune checkpoint, and a slot opened up in a study of an anti-PD-1 agent being developed by Merck that became known as Keytruda. In March 2012, Mr. Murphy had his first dose.

The day of his scheduled sixth treatment in June, a blood test showed “off-the-chart” levels of an enzyme that suggested possible muscle damage. He was hospitalized out of concern for possible kidney failure. Whether the PD-1 drug was responsible isn’t certain, but Dr. Hodi took him off the study.

The next day, an ultrasound to check his kidneys revealed something else: Mr. Murphy’s tumors were shrinking. By the end of August 2012, there wasn’t any evidence of disease on his scans, just shadows where tumors had been. His checkup this October showed the same.

Mr. Murphy, a real-estate agent, stages and participates in triathlons to raise money for cancer research.

“I was on two clinical trials and I was kicked off two clinical trials,” he says. “I don’t think you’d expect the outcome that we have. You wouldn’t expect that would be the pot of gold.”

Online»

Watch interviews with cancer patients who have benefited from immunotherapy at WSJ.com/Health.

OPINION: REVIEW & OUTLOOK

‘Peak Oil’ Debunked, Again

It has been 216 years since Thomas Malthus gave birth to the idea that mankind’s appetite for natural resources would outstrip nature’s capacity to supply them. There have since been regular warnings that the world is running out of soybeans, helium, chocolate, tungsten, you name it—and that population growth has become unsustainable. The warnings create a political or social panic for a while, only to be proved wrong.

The latest reckoning with reality is the end of the obsession with “peak oil,” which for years had serious people proclaiming that we were entering an era of permanent fossil fuels scarcity. It didn’t work out that way.

That’s a central lesson from this year’s dramatic fall in the price of oil, which reached \$69.05 a barrel of Brent crude on Friday from a June high of \$112.12. As recently as early November, when oil hovered at \$80, OPEC officials warned they would intervene to hold the price at \$70. But Saudi officials conspicuously refused to support an output cut at last week’s OPEC meeting, and Saudi oil minister Ali al-Naimi has made clear that he’d be comfortable with lower prices.

The short-term Saudi calculation is to drive oil prices down to squeeze their

geopolitical adversaries and higher-cost producers. That goes especially for their adversaries across the Persian Gulf in Iran, which depends on oil exports for more than 40% of its revenues, and where the regime had designed its budget based on \$100 oil.

The Saudis also hope to slow the explosive growth of U.S. production, which, thanks to the tapping of domestic shale resources through the combination of horizontal drilling and hydraulic fracturing, has risen to some nine million barrels a day from five million in 2008. By some estimates, the price of oil needs to be as high as \$90 a barrel for oil extracted from “tight” deposits such as shale, though oil-market research firm IHS believes most tight oil wells have a breakeven cost of between \$50 and \$69 dollars a barrel.

But even if the Saudi move slows U.S. drilling, the International Energy Agency forecasts that U.S. production will still surpass Saudi Arabia’s output of 9.7 million barrels a day, and overtake Russia’s 10.3 million, perhaps next year. This would make America the world’s largest oil producer, which it was from the dawn of the oil age through 1974. Thanks to fracking,

the U.S. surpassed Russia as the world’s largest natural-gas producer in 2013.

All this is a useful reminder, as IHS’s Daniel Yergin told us the other day, that “technology responds to need and to price.” It was the same story in the 1970s, when the world responded to OPEC’s embargoes by exploiting new resources in Alaska and the North Sea, and again in the 1980s and 1990s, when offshore drilling became technologically feasible and economically profitable at ever-greater depths. And expect more from where that came, as the frackers continue to figure out how to drive down costs, and if new shale deposits in places such as Mexico, Ukraine and Argentina start to be exploited.

Also worth remembering is how spectacularly wrong some recent predictions of doom turned out to be. This is shooting fish in a barrel, but here is Paul Krugman in December 2010, declaring that “peak oil has arrived.”

“What the commodity markets are telling us,” Mr. Krugman averred, “is that we’re living in a finite world, in which the rapid growth of emerging economies is placing pressure on limited supplies of raw materials, pushing up their prices. And

America is, for the most part, just a bystander in this story.” Far from being a bystander, America has been the main oil-market innovator.

Such doomsaying is that much more embarrassing because warnings of peak oil are nearly as old as the oil industry. In his book “The Quest,” Mr. Yergin records that in 1885 the state geologist of Pennsylvania warned that “the amazing exhibition of oil” was “a temporary and vanishing phenomenon—one which young men will live to see come to its natural end.”

Given this 130-year record of predictive failure, why does the end-of-oil myth persist? Part of it is that peak oil is more wish than prediction—a desire to see the end of fossil fuels to serve a larger political agenda. It is also a way of scaring governments into pouring money into alternative energy sources that can’t compete with oil and natural gas without subsidies and mandates. Predicting disaster can also be a profitable business and a path to speech-making celebrity.

The happy ending is that the notion that the world is running out of resources always fails because the ingenuity of entrepreneurs, spurred by necessity and incentive, always exceeds the imagination of doomsayers. So we are learning again. Let’s hope memories will be longer this time.

The world relearns
that supply responds
to necessity and price.

Like a Rolling Stone

Rolling Stone magazine has now acknowledged “discrepancies” in an article it published last month about an alleged premeditated gang rape at a University of Virginia fraternity. Reporter Sabrina Rubin Erdely made sensational allegations based solely on the testimony of the alleged victim. Ms. Erdely also made no attempt to get a comment from the alleged assailants, a failing that bloggers and columnists first pointed out.

All publications make mistakes, in-

cluding us, but this one is worth some meditation for what it says about the larger media and political culture in the U.S. All the more so given the amount of laudatory national attention the story received, and the trauma it caused at UVA.

Part of the reason may be a natural human reluctance to investigate the credibility of an alleged rape victim. But that should not have stopped Ms. Erdely from doing some basic due diligence. The rape allegedly took place at

a loud “date function” at the Phi Kappa Psi fraternity house on Sept. 28, 2012. On Thursday the fraternity released a statement that it “did not have a date function or a social event during the weekend of September 28th, 2012.”

The larger problem, however, is that Ms. Erdely was, by her own admission, looking for a story to fit a pre-existing narrative—in this case, the supposed epidemic of sexual assault at elite universities, along with the presumed indifference of those schools to the problem. As

the Washington Post noted in an admiring profile of Ms. Erdely, she interviewed students at several elite universities before alighting on UVA, “a public school, Southern and genteel.”

The U.S. is plagued by politically driven narratives—particularly about race, class and gender—which the media often use to assert “truths” before bothering to ascertain facts. Last month in Ferguson, Mo., and now at UVA, we’ve seen the harm those narratives can do.

A Growth Opening

Friday’s buoyant jobs report for November put a coda on the most promising month for the U.S. economy in years. First Republicans added control of the Senate to their dominance of the House with enough seats to drive a renewed growth agenda. Now the jobs report reveals a hiring pace that reflects new business confidence.

The slow-growth recovery since 2009 has had jobs fillips before, only to disappoint later, but it’s hard to find much to dislike in November’s report. The economy created 321,000 new jobs, and only 7,000 came from government. Nearly all parts of the private economy contributed, including 28,000 new jobs in manufacturing. With total upward revisions of 44,000 in September and October, the economy has added 2.7 million jobs in the past 12 months.

Also encouraging is that wages rose at a faster clip, with average hourly earnings rising nine cents to \$24.66. Wage increases year over year were 2.1%, which remains historically low, but the November gains are a glimmer that rising job prospects are

beginning to flow to workers in bigger paychecks.

Those paychecks and prospects lured another 119,000 Americans back into the work force, which is the main reason the unemployment rate held at 5.8% despite the healthy jobs gains. The labor participation rate didn’t budge from a sickly 62.8%, but if job creation continues at this pace more people will return to work. One hopeful sign: Those saying they were working part-time for economic reasons fell by 177,000, and the jobless out of work for 27 weeks or more fell by 101,000. A rising tide lifts even the long-term unemployed.

The best news would be if this jobs trend signals renewed confidence by employers in the prospects for economic growth. The past two quarters were robust (4.6% and 3.9% in annual GDP) and would represent the strongest growth since the mid-2000s if the pace continues. The de-

clines in oil prices, and thus gasoline, may be giving consumers a boost that will further encourage business investment and hiring.

Then there’s the potential lifting of the long Washington pall. For years the economy has had to face a policy bias toward imposing ever-higher costs on private business. You know the litany: the 2007 energy bill, ObamaCare, Dodd-Frank, burdens on fossil fuels, higher taxes, and so much more.

The GOP House that was elected in 2010 delayed a tax increase but President Obama’s re-election imposed it in 2013. His Administration’s rule-by-regulation continues, but at least Congress will do no more harm.

The key point is that for the first time in years Washington may even have a growth bias. Congress will attempt to reform the business tax code, ease or repeal regulations, reduce the burdens of ObamaCare, and otherwise remove barriers to job cre-

Business hiring
increases as
policy damage from
Washington ebbs.

ation. It’s impossible to know how much will pass while Mr. Obama is still President, but some pro-growth measures are likely to make it through.

The psychological effect of this change shouldn’t be underrated. American business has been hunkered down for years, even with a rising stock market and near-zero interest rates, because CEOs haven’t known what damage Washington might do next. Now the main question is what good might happen.

With Congress mostly checking Mr. Obama, the biggest remaining policy uncertainty is when and how quickly the Federal Reserve will continue its march back to monetary normalcy. The Fed ended its new bond-buying in October, and the economy survived. Our guess is the same would happen if the Fed raised rates slowly from the near-zero-bound.

It’s hard to believe, but the Fed first hit zero six years ago this month. More months like November and even the current Board of Governors might decide it can finally move.

OPINION

An Immigration Game Plan for the New Congress

By EDWARD P. LAZEAR

President Obama's unilateral action on immigration angered many in Congress and among the American public. With Republicans taking control of Congress, it is tempting to respond aggressively. Instead, a more measured and constructive approach would move the country forward and address the concerns that the voters expressed in the recent election.

Republicans would be wise to take a measured approach that moves the country and the economy forward.

To fix a system that the president admits is "broken," Congress can pass legislation to deal with three issues. First, use market indicators to award green cards that favor immigrants in needed occupations and industries. Second, create a new class of visa that carries an annual fee, available to some of the undocumented, and provide for a guest-worker program. Third, use employer-based incentives to deal with illegal immigration, past and future.

Right now most immigrants to the U.S. arrive on the basis of family ties, not on the basis of their skills. Family reunification considerations are important, but they

shouldn't trump all others. Typically, fewer than one-sixth of immigrants each year obtain green cards based on their skills, according to the Department of Homeland Security.

More slots should be allocated on the basis of occupational needs. The easiest way to determine which industries and occupations are experiencing labor shortages is to identify those with rapid wage growth. When labor demand rises relative to supply, wages go up. According to U.S. Bureau of Labor Statistics data, information services, management and pipeline transportation saw the most rapid wage growth from 2006 to 2014. Data on industry and occupation vacancy and unemployment rates can also be used to determine labor-market demand.

Congress could allocate perhaps half of the annual number of green cards issued on a statistics-determined skill basis, where priority is given to skills for which demand is growing most rapidly relative to supply. Green-card entry criteria could be adjusted periodically to reflect labor-market conditions.

This reform would help the economy but several studies over the years show that it would not significantly depress domestic wages. One study by Zvi Eckstein and Yoram Weiss on the massive Soviet migration to Israel (Journal of the European Economic Association, 2004) revealed that immigration had at most small ef-



fects on the wages of the native-born. Robert LaLonde and Robert H. Topel (American Economic Review, 1991) and Giovanni Peri (Institute for the Study of Labor, 2014) provide evidence that immigrants have negligible effects on those already in a country—wage pressure, if any, is primarily on immigrants who came earlier. Using labor-market data to determine labor-market tightness will mitigate any adverse impact on wages.

In addition, perhaps 250,000 temporary worker visas can be issued annually to enhance already existing H-1 and H-2 foreign-worker visa programs. The new visa would allow workers to stay for up to two years and be concentrated in industries with shortages.

Most Americans accept that those who have entered illegally or overstayed their visas have com-

mitted a crime. Complete amnesty seems inappropriate and would encourage illegal entry in the future. As an alternative to deportation, however, one reasonable approach is to fine undocumented immigrants rather than deport them.

Congress could create a "Z" visa, to be issued to undocumented immigrants who can demonstrate that they have been in the U.S. for five years or more and have no criminal record. The visa would allow them, their spouses and children to stay, provided that they pay an annual visa fee of, say, a few hundred dollars. Anyone with a Z visa could apply for a green card, but would go to the end of the queue, continuing to have Z status during the waiting period, as long as the annual visa fee was paid.

Holders of the Z visa would be able to work while they wait for

their green cards. A useful and equitable extension of the Z-visa system would be to allow a limited number of those who are not already in the country, but have been waiting patiently, to obtain Z visas and pay the visa fee while they await regular green-card status.

Finally, Congress should create appropriate incentives to apply for legal status. Employer enforcement is essential to ensure that the undocumented do not choose to stay in the shadows rather than pay the fee for a Z visa. Programs like E-Verify are necessary and should be enhanced. Firms should be fined heavily for hiring those who are here illegally, but given safe harbor as long as they check the status of new employees.

A system that penalizes employing those without legal status in the U.S. is also the best way to keep new illegal immigrants out. Border enforcement is necessary and uncontroversial, but immigrants who cannot work cannot afford to live in the U.S. According to the Pew Hispanic Center, nearly half of all illegal immigrants in the U.S. entered the country legally and overstayed their visas. The only way to close that avenue is to eliminate their employment possibilities.

Mr. Lazear, a former chairman of the Council of Economic Advisers (2006-09), is a professor at Stanford University's Graduate School of Business and a Hoover Institution fellow.

The British Museum's Poor Judgment on Display

By ERIC GIBSON

On Friday the British Museum announced that the marble sculpture of the river god Ilissos, part of the celebrated Elgin Marbles from the Parthenon in Athens, had been loaned to the State Hermitage Museum in St. Petersburg to mark the 250th anniversary of the latter's founding. It is to spend six weeks in the Hermitage's galleries of Roman sculpture. Recalling the impact of the sculptures when they were first shown in London in the 19th century, the museum explained in its press release that, "The effect of that encounter with an original ancient Greek sculpture in a world used to Greek art mediated through Roman copies can hardly be overstated."

Museums normally break news like this months in advance. But by the time the British Museum issued its release, the sculpture was already at the Hermitage and ready to go on public view the next day—an unprecedented state of affairs. This made the British Museum's announcement look like one of those dead-of-night data dumps that governments resort to when releasing information they know will be damaging.

Predictably, the outcry was immediate. Given that the Marbles have never left the British Museum, some people worried that this action would open the door to Britain eventually acceding to Greece's long-standing and oft-repeated demands for their return. Others expressed outrage over sending such a potent symbol of

democracy to Vladimir Putin's Russia. No less a figure than Prime Minister David Cameron was forced to respond with soothing words to fears that Mr. Putin would keep the sculpture at the conclusion of the exhibition, or worse, send it to Athens instead of back to London.

None of these doomsday scenarios seems likely. But let's be clear: Allowing the river god Ilissos to leave the British Museum was a grave and indefensible error that should never be repeated.

Over the past several decades

Putting a potent symbol of Western democracy at risk.

we've become so used to seeing high-profile art exhibitions with objects borrowed from around the world that it's easy to forget works of art are fragile—this sculpture is 2,500 years old—and that setting them in motion exposes them to danger. Thankfully there haven't been any catastrophic losses, but there have been accidents. Ten years ago the Guardian reported on a London conference about the dangers of traveling works of art. Among the tales heard by attendees: an Andy Warhol self-portrait that suffered a rip when a gust of wind caught it as it was being carried to the movers' truck, and damage to the Book of Kells, arguably the greatest of all medieval illuminated

manuscripts, from vibration experienced on the flight from Ireland to Australia.

And just last year, the Herald Scotland reported on a confidential letter from Nicholas Penny, director of London's National Gallery, to a Scottish Parliament committee considering whether to allow Glasgow's Burrell Collection to tour some of its treasures in contravention of the donor's will. According to the Herald, the letter, which was accidentally posted on the Scottish Parliament's website, warned that "moving works of art has led to several major accidents, incidents and damage to works, of which many have not come to public attention." The article quoted Mr. Penny decrying the "deplorable tendency" to deny the risks of transporting art around the world.

Hence the museum professionals' rule of thumb to lend only for exhibitions with a serious scholarly purpose—say, an artist's career survey where their breakout picture is essential. Neither a birthday party ("Happy Birthday to the Hermitage! 1764-2014," reads the museum's splash page) nor, to take the British Museum's explanation at face value, providing a broader art-historical context for objects in another institution's collection, meet that threshold.

Yet one wonders if the real reason for this decision doesn't lie elsewhere. The loan "is part of ongoing exchanges between museums in Britain and Russia," reads the third paragraph of the press release—well ahead of all that cheery talk about Greek originals



MISSING MEMBER The marble sculpture of Ilissos (left), as it was displayed at the British Museum. It is now on loan to the Hermitage Museum, leaving behind only a gap.

and Roman copies. The release goes on to cite a number of recent loans from Russia to U.K. museums (for the Houghton Hall, Vikings and Malevich exhibitions) and some that the recipients have planned for Russia in the future. Translation? Keep scratching our backs, and we'll scratch yours.

There's another reason this loan is a bad idea. Many museums have "destination objects," works in their collection that so define the institution they are deemed too important to take off view. If anything fits that category, it's the Elgin Marbles, to the point that, to many visitors they are the British Museum. And no wonder. The Marbles represent the highest achievement of ancient Greek art, the culmination of a centuries-long drive to represent the world as it is seen and to articulate an enduring ideal of human beauty. Their

influence on artists down the ages has been incalculable. Yes, this river god is but one of a much larger number of objects brought back by Lord Elgin. But Ilissos forms part of an ensemble of sculptures and sculptural fragments arranged to appear as closely as possible as they did on the Parthenon. Take him away, and you have the museum equivalent of a gap-toothed smile.

Without a doubt, given the upheavals Russia has experienced during its long history, the survival of the Hermitage Museum for 250 years is an event to be celebrated. But not by imperiling one of the foundational masterpieces of Western art, or by shortchanging the visitors who flock by the thousands to see it each year.

Mr. Gibson is the Journal's Arts in Review editor.

OPINION

The Oilman to Thank at Your Next Fill-Up

[Journal Interview]
with Mark Papa

By JOSEPH RAGO

On Wednesday, an OnCue Express in Oklahoma City became the first U.S. filling station since 2010 to sell regular gasoline for less than \$2 a gallon. The U.S. national average—hovering around \$2.74 last week, also the lowest since 2010—is down 51 cents in a year and continues to fall, which Goldman Sachs pegs as equivalent to a \$75 billion tax cut over the past six months. Consumers can thank Mark Papa, the oilman whose role in creating this income windfall remains, for the most part, unsung. The same goes for the many other benefits of the modern American energy boom.

Mr. Papa retired in July 2013 as CEO of EOG Resources, the drilling company that he made into the largest crude-oil producer in the lower 48 over his decade-and-a-half as chief. “They were among the pioneers of the unconventional oil and gas revolution,” says the peerless energy historian Daniel Yergin—a company that advanced new frontiers in hydraulic fracturing and horizontal drilling, allowing producers to tap dense, hard-to-extract shale.

“I can’t think of any other single event that has caused such a positive economic benefit to the nation as a whole as shale oil and shale gas,” Mr. Papa says on a recent visit to New York from his home near Houston. “The fact that oil prices have collapsed as much as they have is directly attributable to the shale revolution.”

The ‘accidental CEO’ says even he underestimated the shale revolution, which will continue despite lower prices.

As Mr. Papa reads the global market, the price slump is the result of “a bit more production” that has made all the difference—an additional million or so barrels of new oil daily amid world-wide demand of about 92 million barrels a day. Some of that is “unanticipated supply coming out of places such as Libya,” he says, but the major driver is U.S. shale oil.

In 2012, Mr. Papa explains, the year-over-year growth of domestic shale oil was about a million barrels daily, and last year growth slowed to 800,000. “The general feeling was that we’ve had flush production and the easy stuff had been had, and as you got into the third year, it was becoming a little more difficult to achieve this tremendous boost in production.” About 700,000 barrels for 2014 was the consensus.

Instead, “to the surprise of most people,” Mr. Papa says, including himself, daily U.S. production growth this year surged to 1.2 million barrels on average. Now “the expectation is or was at \$100 oil that the U.S. would continue to grow at a million barrels per day per year, per year, per year. People forecast, my gosh, we have more oil on the market than we thought, and next year we’re going to have an even bigger surplus of supply



Ken Fallin

over demand, and the following year even more, and so perception became reality and all of sudden—boom.”

The U.S. crude-oil benchmark of West Texas Intermediate has tumbled by about \$30 per barrel since June, after hanging out at \$100 for three years. EOG’s crude production climbed by 40% in 2013.

Given that the company was “one of the first movers in shale-oil activity in the U.S., frankly I thought we had our finger on the pulse of what was going on in the industry,” Mr. Papa says. What happened is that “a step-change efficiency improvement” sneaked up this year as technology advanced and drillers found ways to make wells more productive and extract more oil from the same play.

The drop in oil prices doesn’t mean the U.S. is heading into a boom-and-bust crash, Mr. Papa believes, but momentum will “decelerate considerably” after about six months. “U.S. oil production growth is going to slow in 2015, 2016, 2017 simply because E&P companies”—the industry term for Exploration & Production—“are not going to have the cash flow to reinvest.”

The major U.S. shale fields—the Bakken regional formation in North Dakota, the Eagle Ford in south Texas, the Permian basin in west Texas and southeast New Mexico—“still yield positive economic returns” with oil at \$70 or even in the mid-\$60s, Mr. Papa says. “Fringe areas” like the midcontinent Mississippian or the DJ basin in the Rocky Mountains will become less attractive. And some highly leveraged drillers may be shaken out if prices remain low, while for others introducing more discipline and incentives for innovation.

If this is “somewhat of a self-correcting event,” Mr. Papa says, what a “fantastic turnaround” from only a few years ago. “Pretty much everybody, both inside and outside the industry, was predicting that

production was on an inevitable continued decline and there’d be an ever-increasing dependence on imported oil year after year after year.” Without shale oil, he guesses, the oil price would be \$100 to \$120 today, adding that “I think you can certainly say that by 2020 we have a good chance to be North American energy independent, such that U.S. production plus Canadian imports will fulfill all our oil requirements.”

A petroleum engineer by training, Mr. Papa became “the accidental CEO” when Enron “decided to jettison tangible assets as they evolved into a trading company” and discarded its EOG division in 1999. Around that time, a billionaire wildcatter named George Mitchell proved in the Barnett Shale near Fort Worth that vertical fracking was a viable technology, and EOG refined horizontal drilling techniques for natural gas—directing the bit sideways through the layers of shale—and soon became an industry leader. The supermajors like Exxon and Chevron were taken by surprise.

“About 2007,” Mr. Papa recalls, “I looked around and said, EOG has found so much shale gas, but there are a whole lot of other companies that have found vast amounts of shale gas. All the other companies were ecstatic, and their whole business strategy was, ‘We’re going to find more shale gas.’ I stood back and said this probably doesn’t bode well for natural-gas prices in North America.”

If gas prices would remain depressed due to a glut, as in fact they would, Mr. Papa’s insight was that perhaps oil, as well as gas, could also be coaxed from shales. Oil molecules are several times as large as gas molecules, and “because the flow paths through these shales are very small, very narrow and restrictive, the general feeling was that you could not produce oil from shales commercially.”

Mr. Papa and his team sus-

pected this was “an apocryphal old wives’ tale,” and no one had “really done the work to prove that conclusively. So we challenged that dogma, and it was incorrect.”

EOG maintains no central research-and-development department. “Our R&D was just applied R&D,” Mr. Papa notes. “We went out there, drilled some wells, and the first eight or nine were unsuccessful. We got improvements, improvements, improvements, until we finally ended up hitting the right recipe for success.” EOG’s decentralized technical operations and “minimum bureaucracy” encouraged engineers to experiment well by well.

Late in 2006, EOG showed that shale oil was feasible in the Bakken. This discovery meant that EOG could switch to oil, with production flipping to 89% liquids (mostly crude) this year from 79% gas in 2007. More to the point, by proving everyone else wrong—again—Mr. Papa changed the domestic industry as other companies chased his achievement. To the extent that U.S. shale oil is transforming world-wide markets, he deserves a lot of the credit.

Early on, Mr. Papa had “made some armchair estimates about what the effect would be on total U.S. production. I undershot by factors of two or three times what has actually happened. I never grasped the scale of it. I underestimated what might happen if we were successful.”

In retrospect, Mr. Papa misjudged the upward slope of technological progress. “A lot of people look at the oil business and they see a picture of a roughneck working some pipe on an oil derrick and there’s dirt and grease and everything else, and they think this is so retro of an industry. That’s such a misnomer,” he says.

“Where we sit today with shale is the same place a petroleum engineer sat in the 1940s with a conventional sandstone reservoir,” Mr. Papa says. The best recovery rate

then was 10% to 15%, leaving the rest underground, much like shale now—but since has climbed to 40% or 50%. The technology doesn’t yet exist for shale to yield similar shares, but Mr. Papa is confident that over the next 10 years it will emerge, “which basically means we’re going to double or more the amount of oil we’re going to recover. . . . Technology is always going to find a way to unlock each increment of resources.”

* * *

Mr. Papa discounts what could be considerable political risks to the energy boom, like some carbon tax or a federal takeover of fracking oversight. On the latter, he thinks the business is well regulated by the states and “there’s been a million frack jobs performed in the U.S. with zero documented cases of damage to the drinking-water table. For my set of statistics, those are pretty good odds.”

As for everything else that might come out of Washington, Mr. Papa says: “It’s my belief that for likely the next 40 or 50 years, we’ll continue to be in a hydrocarbon-powered economy, the main drivers of which are natural gas and crude oil. . . . You have to rely on the logic of the American people and our legislators to say, look at the economic benefits. The benefits are so obvious that an objective person would question whether we want to impose punitive regulations that will diminish what’s accrued.”

Mr. Papa reels off a few examples: A new burst in employment, business investment and gross domestic product. Self-sufficiency in natural gas “for probably the next 50 years” and a two- or threefold competitive price advantage over Europe and Asia, leading to a revival of in-sourced manufacturing. A state and federal tax-revenue bonanza. Diminishing the importance of Persian Gulf and Russian energy dispensations in foreign policy.

Mr. Papa observes that these disruptive gains confounded the zodiac readings of the experts. The gains were driven by smaller, independent, nimble companies, risking their own capital on potential breakthroughs across mainly state and private lands without federal subsidies.

“If you want to point to a success of private enterprise, and how the capitalist system works for the benefit of the total U.S. economy,” he says, “I can’t come up with a more glowing example.”

Mr. Rago is a member of the Journal editorial board.

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BUSINESS & FINANCE

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Consumer Stocks Draw Fans in U.S. As Oil Falls

By ALEXANDRA SCAGGS

Money managers are homing in on consumer-focused stocks following a sharp decline in oil prices that stands to improve U.S. household finances, though some warn that the biggest gains in those shares may already be history.

Among the top beneficiaries from this fall's energy-price plunge have been big-box stores, low-price restaurants and auto-parts companies. Many investors reason that

these firms stand to gain the most from tumbling energy costs because

low-wage earners spend more of each paycheck than wealthier Americans on filling up, so lower gas prices give them funds they are likely to quickly deploy on household goods and other necessities.

Shares of big-box giant **Target Corp.** have gained 18% this quarter, compared with the 5.2% advance by the S&P 500. Auto-parts retailer **O'Reilly Automotive Inc.** is up 25%, **Costco Wholesale Corp.** has added 14% and **Wal-Mart Stores Inc.** has risen 10% since Sept. 30. Each cited falling gasoline prices in their latest profit reports as a positive for earnings.

"It's clear the consumer is catching a break," said Margaret Vitrano, who manages \$7.9 billion for Clear-Bridge Investments. "It isn't enough to go on a cruise, but it's enough to upgrade from chicken to steak."

Ms. Vitrano owns Target shares, and thinks the Minneapolis retailer's sales should get a boost from the decline in gas prices.

U.S. crude-oil prices have fallen 39% since June, amid flagging global demand and a strengthening dollar. On Friday, crude futures settled at \$65.84 a barrel.

Retail gasoline prices in the U.S. were down 17% on Friday from a year earlier, at an average \$2.711 a gallon, according to auto club AAA.

The recent declines should put at least an extra \$40 billion in U.S. consumers' pockets in the fourth quarter of this year, according to an Oct. 27 report from Morgan Stanley. That would translate into about \$42 per person each month, based on population estimates from the U.S. Census Bureau.

That cash packs a bigger punch with lower-income consumers. Families with annual income below \$50,000 spent, on average, about a fifth of their earnings on energy in 2012, according to Bank of America Merrill Lynch.

In addition to retailers, beneficiaries have included other heavy users of energy, such as the airline sector, which is up 27% this quarter,

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Wanda Bets on Theme Parks

By LAURIE BURKITT

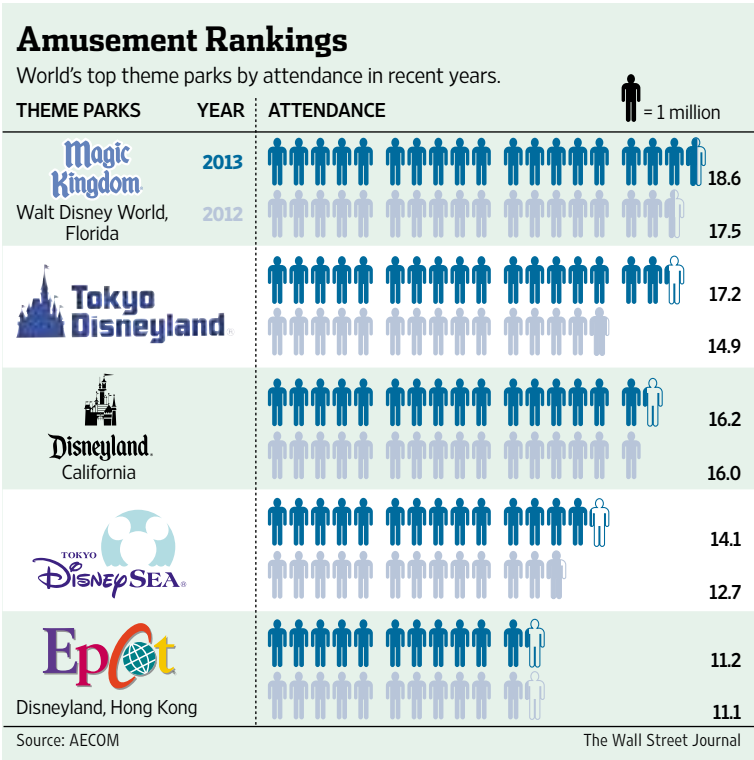
WUHAN, China—A Chinese property giant is betting that it can offer China a better time than Disney and Six Flags, and that this city of 10 million is ready for a water-acrobat show and a theme park.

Across China, **Dalian Wanda Group Co.** is setting up more than a dozen amusement parks, and it is building space rides and flight simulators to attract tourists. Its recipe for how to beat the foreign brands at their game: target lower-profile cities like this central manufacturing hub.

In Wuhan, Wanda has enlisted more than 100 acrobats and artistic director Franco Dragone to create China's answer to Cirque du Soleil. It hopes that next year three million visitors will pay from 700 yuan to 2,200 yuan, or \$114 to \$358, to ride through a simulated Chinese landscape at its new theme park and watch acrobats dive from 20-plus meters into a giant pool at its "wet and dry" theater. Both are set to open later this month.

Well-known Western theme-park companies have already planned big launches in China. **Walt Disney Co.** is set to open a park in Shanghai next year; **Six Flags Entertainment Corp.** said in June that it would build multiple Six Flags parks in China over the next decade. **Comcast Corp.**'s Universal Parks & Resorts is opening a 20-billion-yuan (\$3.25 billion) theme park in Beijing.

There is a lot at stake for Wanda, which has poured more than \$1 billion into its Wuhan plans. Theme



parks can take a decade to turn a profit, said Chris Yoshii, a theme-park expert at engineering-services company **Aecom Technology Corp.**

Wanda, which pulled in \$4 billion in revenue last year, has built its global profile in recent years: It bought U.S. movie-theater chain AMC in 2012, and it owns British yacht maker Sunseeker. Wanda Chairman Wang Jianlin is one of China's richest men.

While real estate is Wanda's

bread and butter, Mr. Wang is now aiming to corner the theme-park industry, much as he is trying to do in film. Wanda is now China's largest operator of cinemas, and it broke ground on its Chinese version of Hollywood in Qingdao last year at a ceremony attended by celebrities like Nicole Kidman and Leonardo DiCaprio. Wanda declined to comment on its total investment in theme parks.

Six Flags, meanwhile, declined to

comment on how it plans to compete with Wanda.

Universal said it intends to create attractions just for China, with a spokesman adding that "Beijing is the perfect city" because of its tourism market.

Disney acted early to build in China and is "uniquely qualified" to fit the growing demands for theme-park experiences in the country, a Disney spokeswoman said.

For major entertainment companies, China is critical growth turf. Over the past five years, revenue for the Chinese amusement-park industry has increased at an annualized rate of 12%, according to research firm IBIS World, which says the industry's revenue is expected to rise 9.6% to \$2.9 billion this year.

The Chinese government is trying to rev up consumer spending at home and create a homegrown entertainment industry that will one day reach overseas. But amusement parks have a checkered history in China. They require vast tracts of land, and many "themes" have failed to catch on.

Wonderland, an amusement park opened by Thailand's Reignwood Group outside Beijing, was torn down last year after its castle and villages sat vacant for more than a decade. Meanwhile, the Kingdom of the Little People, near the southwest city of Kunming, draws few people interested in a fabricated village built for China's dwarf population.

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Red Flags Emerge in Technology Valuations

By SHIRA OVIDE AND TELIS DEMOS

These days in Silicon Valley, venture capitalists appear to be valuing companies in only one direction: up. Two companies may soon break that pattern when they go public, a warning sign for investors in sizzling startups.

App-analytics firm **New Relic Inc.** and data-crunching software company **Hortonworks Inc.** last week proposed to sell shares to the public at a 25% to 50% discount to the roughly \$1 billion valuations that some venture-capital firms and big mutual funds paid earlier this year.

Bankers for Hortonworks and New Relic could be proposing conservative initial public prices to entice investors. The target prices for IPO shares often are revised higher as bankers get a better sense of demand.

Still, if the IPOs do value New Relic and Hortonworks well below their private-market valuations, it could fan worries that such valuations have gotten out of whack with public markets.

Beyond **Uber Technologies Inc.** and its near-record \$41 billion valuation,

other tech startups such as software provider Dropbox Inc. and data-mining startup Palantir Inc. have also attracted multibillion price tags in a relatively short period. Venture-capital firms, hedge funds and mutual funds have plowed billions of dollars into those companies on the expectations they will continue to soar in value.

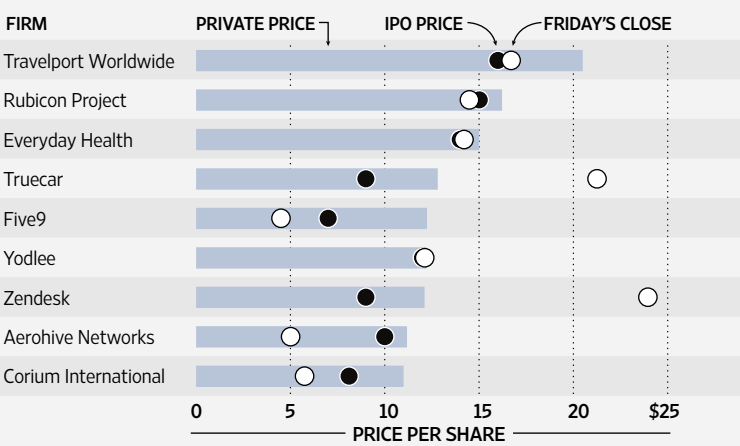
There are now at least 48 private U.S. companies valued at \$1 billion or more by venture-capital firms, versus 27 at the start of the year, according to Dow Jones VentureSource. That is a record number—during the height of the dot-com boom in 2000, there were 10 such companies.

Until last week, both New Relic and Hortonworks were on that list. But now those companies and their bankers need to reflect lower public-market valuations in their shares.

So far in 2014, at least 30 companies have gone public in the U.S. with lower prices than they were worth in private stock sales or option grants in the prior 90 days, according to Valuation Advisors LLC, which conducts valuations for private companies. That compares with 10 such companies last year.

Which Price Is Right?

Selected tech firms whose IPO this year priced below private stock sales or option grants



Sources: Valuation Advisors; WSJ Market Data Group (Friday's close)

The Wall Street Journal

"When it comes to riskier assets, as the economy improves, [investors are] willing to take on more risks," said Valuation Advisors President Brian Pearson. "To the extent people view tech companies as higher risk, higher reward-type companies, that's

what's driving private valuations." Some investors and bankers say valuations of tech startups continued inflating this spring even as the stock prices of some fast-growing and richly valued public tech com-

Please turn to page 19

BUSINESS & FINANCE

Prada's Profit Slumps Amid Slow Demand

By MANUELA MESCO

Prada SpA's third-quarter profit fell by nearly half as slowing demand for luxury goods, especially in Asia, weighed on sales at the Italian fashion house.

The decline, which was far worse than expected, continues a yearlong retreat from stellar growth rates in prior years.

Prada said on Friday that profit for the quarter ended Oct. 31 fell to €74.5 million (\$92.4 million) from €132.6 million a year earlier. Revenue dropped 5.6% to €800.7 million.

Other luxury-goods megabrands, such as Kering SA's Gucci and LVMH Moët Hennessy Louis Vuitton, have suffered a slowdown as they navigate changing consumer tastes and increased competition.

More broadly, Europe's protracted slump and cooling econo-

mies in Asia have damped demand, as have recent protests in shopping mecca Hong Kong.

In the latest quarter, Prada brand sales fell 7.5%, while in the Far East region companywide sales dropped 9%. The company's executives said October was particularly weak, reflecting a falloff in Hong Kong and Macau. Americas sales rose 2%, while sales in Europe fell 4%.

"The luxury-goods market is changing" in terms of consumer tastes and perceptions, Prada finance chief Donatello Galli said Friday in a conference call with analysts.

Chief Executive Patrizio Bertelli said luxury suppliers like Prada will have to adapt their products and strategies regionally, yet the readjustment "is not entirely clear."

Prada said steps it has taken to counter the slowdown have led only

to lower profitability so far, and that further measures, ranging from changing product mix to cutting costs, are in store. "Some of these actions will produce effects in the forthcoming quarters, since they require some time to be implemented," the company said.

Prada said it would introduce new handbags in the face of a significant sales slowdown for the category. Leather-goods sales, traditionally the growth engine for the Milan-based company, were off 6% in the first nine months of the year, including a third-quarter drop of 9%.

More bags will be launched in the €1,000-€1,200 price range, said Stefano Cantino, head of marketing, communications and commercial development, though growth opportunities remain in the €2,500-€2,700 price range. The company's operating profit fell 26% at €123.3 million.



Associated Press

Prada, whose quarterly revenue fell 5.6%, said it will introduce more €1,000-€1,200 handbags. Above, a Prada show at a recent Milan Fashion Week.

Songbird Says Revised Offer Isn't Enough

By ED BALLARD

LONDON—Songbird Estates PLC, the owner of London's Canary Wharf business district, said a sweetened £2.6 billion (\$4.08 billion) takeover offer from Qatar's state investment fund and Brookfield Property Partners LP doesn't reflect the value of the company.

The real-estate company said on Friday that it will provide a detailed response to the acquisition offer in due course. Songbird owns 69% of Canary Wharf Group.

Qatar Investment Authority and Brookfield made a £3.50-a-share offer for Songbird late Thursday.

"The final offer price represents a significant premium to Songbird's fundamental value and to the pre-approach share price even following a significant increase in the reported valuation," said the Qatar group, which owns 28.6% of Songbird.

The new offer is 19% higher than an earlier proposal of £2.95 but falls short of Songbird's own valuation.

Songbird has said the value of its assets, which mostly consist of skyscrapers and retail space, had risen 19% since June to £3.81 a share. Even the increased figure didn't account for some sources of future value, such as a rail link being built across London, Songbird said.

One Songbird shareholder—Third Avenue Management LLC, which holds 3.5% of Songbird—has agreed to accept the offer.

But the price could still be too low to secure the support of the three other investors that, along with Qatar Investment Authority, control the lion's share of Songbird stock, said Kate Renn, an analyst at Peel Hunt.

U.S. investor Simon Glick holds just over a quarter of the shares, China Investment Corp. holds 15.8%, and Morgan Stanley holds 8.5%.

"We'd guess they would reject this offer," Ms. Renn said. "Over the longer term there is a lot more money to be made," she said, highlighting the potential for developing new homes in the area.

Songbird has planning permission for 3,100 homes near its existing estate.

—Angela Chen and Tapan Panchal contributed to this article.



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BUSINESS & FINANCE

Sony Lost Rocky's Personal Information

BY BEN FRITZ
AND DANNY YADRON

The hack at Sony Pictures Entertainment revealed far more personal information than previously believed, including the Social Security numbers of more than 47,000 current and former employees along with Hollywood celebrities like Sylvester Stallone.

An analysis of 33,000 Sony documents by data-security consulting firm Identity Finder LLC found personal data, including salaries and home addresses, posted online for people who stopped working at Sony Pictures as far back as 2000 and one who started in 1955.

The hack and subsequent posting by a group calling itself Guardians of Peace illustrate the risks large companies like Sony take by amassing years of digital records on em-

ployees and customers on machines connected to the Internet. Much of the data analyzed by Identity Finder was stored in Microsoft Excel files without password protection.

The documents, reviewed by The Wall Street Journal, also contain the Social Security numbers or taxpayer-identification numbers of thousands of freelancers, including actors who appeared in movies and TV shows produced by the Sony Corp.-owned studio, one of Hollywood's largest.

Among them are Mr. Stallone, director Judd Apatow and Australian actress Rebel Wilson. Representatives for the three stars declined to comment.

The personal data can be found alongside contracts and other sensitive documents in massive files currently being traded on file-sharing networks such as Bit Torrent.

Investigators, including teams from Sony, the Federal Bureau of Investigation and computer-security firm FireEye Inc., say the hackers used methods similar to ones previously attributed to North Korea. The malware was made on a machine with Korean language settings during Korean peninsula working hours and appears very similar to a tool used last year against South Korean banks and television stations, three people briefed on the investigation said.

North Korea on Sunday denied a direct role in the recent hacking of Sony Pictures Entertainment, but said the attack may have been the work of its sympathizers.

A spokesman for the Pyongyang government has expressed outrage over "The Interview," a Sony-produced Seth Rogen comedy set for release Dec. 25 that mocks North Korean leader Kim Jong-Un.

Sony Pictures hasn't released many specifics to the public or employees about the scope of the breach. In an email to staffers Tuesday, Chief Executive Michael Lynton and co-chairman Amy Pascal called the theft of documents and their subsequent release online "malicious criminal acts." The studio is offering one year of free credit monitoring and fraud protection to current and former employees.

The studio's lawyers are also trying to force websites to remove the data or the links to it. As with pirated movies and music, however, once data becomes available on file-sharing networks, it is virtually impossible to remove.

Current and former Sony employees have said they are infuriated at the leak of personal information and scared at what else may appear online. Some also questioned

whether one year of fraud protection will be adequate as their Social Security numbers will presumably live on the Internet for many years.

A Sony spokesman declined to comment.

The breach at Sony has gained unusual attention in part because it has exposed so many details on the inner workings—salaries, healthcare records, office call lists—of employees at a famous company in a prominent industry.

Cybersecurity experts could recall no other breach where so much data on a high-profile company was made public in one data dump. Investigators say hackers often have access to large troves of data once they penetrate a company's digital perimeter. But the hackers may be seeking only one type of data, such as credit-card numbers, or don't publish everything they have stolen.

Bidding War For Club Med Takes Yet Another Turn

BY THOMAS VARELA
AND RUTH BENDER

PARIS—Italian businessman Andrea Bonomi raised his bid for **Club Méditerranée SA** to €24 (\$29.52) a share, firing a fresh salvo in a long-running battle for the French resort operator.

Mr. Bonomi's latest bid, which values Club Med at around €915 million (\$1.13 billion), came Friday, just a few days after a group of investors led by Chinese conglomerate **Fosun International Ltd.** raised their bid to €23.50 a share, valuing the company at €897 million.

Club Med has been the object of a series of bids and counterbids over the past 18 months.

In the battle, Club Med's chief executive, Henri Giscard d'Estaing, has sided with Fosun, saying he suspects Mr. Bonomi is seeking quick returns that can only be achieved through large asset sales.

Mr. Bonomi, whose partners in the bid include private-equity firm **KKR & Co.**, on Friday denied he had any plans for big asset sales to make a quick return on his investment.

"It isn't possible to relaunch a project as interesting as Club Med without having a long-term industrial project," Mr. Bonomi said at a news conference in Paris.

Global Resorts, Mr. Bonomi's investment vehicle, on Friday said it intends to pursue and accelerate the development strategy of Club Med by investing €150 million to expand the company's customer base and geographic footprint.

France's stock market regulator AMF has set a deadline of Dec. 19 for the Fosun group to react to Mr. Bonomi's latest offer.

A spokeswoman for Gaillon Invest, Fosun's investment vehicle, said it was studying the situation.

Fosun, which has backed the French company's strategy to expand in Asia and China since 2010, already owns 18.4% of Club Med.

Mr. Bonomi, via his Global Resorts investment vehicle, recently became Club Med's largest shareholder, with a 18.9% stake.



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BUSINESS & FINANCE

UTC Boss Exit Followed Tension

Directors Questioned CEO Over His Absences; Top Managers Complained About Access

Shortly before Louis Chenevert abruptly retired as chief executive of United Technologies Corp., he made a side trip to Taiwan to check on the construction of his 110-foot yacht.

By Ted Mann, Joann S. Lublin and Aries Poon

Two weeks later, the executive was out—undermined by concerns among directors and senior managers that he was too disengaged from the details of the conglomerate’s operations and too focused on private interests, including his yacht, people familiar with the matter said.

The abruptness of Mr. Chenevert’s departure startled some executives within the company. But it was the culmination of perceptions that had been building over time that Mr. Chenevert was often away, leaving him less involved and harder to reach, the people said.

Top managers at the industrial units of United Technologies, which manufactures Pratt & Whitney jet engines, Sikorsky helicopters, Otis elevators and Carrier air conditioning units, complained that they were having difficulty getting adequate access to the CEO when they needed it, the people said. They wanted Mr. Chenevert to handle more business decisions in person as opposed to over the phone, the people said.

A person familiar with Mr. Chenevert’s thinking said the executive had been passionate about his job and that any perceptions of disengagement probably stemmed from his obligatory, extensive travel, often for work related to acquisitions or defense contracting that required secrecy. When not traveling, Mr. Chenevert was consistently present at the company’s Hartford, Conn., headquarters and in constant contact with his direct reports, the person said.

Still, Edward Kangas, then United Technologies’ lead independent director, confronted Mr. Chenevert with those concerns following the CEO’s return from a business trip that included a stop in Kaohsiung, Taiwan, to monitor the construction of his latest yacht, two of the people said.

The board member asked about Mr. Chenevert’s priorities and why he seemed less involved. Ultimately, the 57-year-old CEO decided to re-



Louis Chenevert’s departure from United Technologies was the culmination of perceptions that he had become disengaged.

tire. The board of directors, in a three-hour meeting on the Sunday before Thanksgiving, accepted Mr. Chenevert’s resignation and replaced him with his longtime deputy, finance chief Gregory Hayes. Mr. Kangas took over the job of board chairman from Mr. Chenevert.

“It wasn’t a crisis. It was just a growing issue and concern which caused me, with counsel from the board, to discuss with Louis his priorities—personal and business,” Mr. Kangas said. “After consideration,

The split occurred against the backdrop of a lackluster year.

Louis concluded that the company was in a good place, had a great candidate to be the next CEO, and it was a good time for him to retire.”

He added that the separation was “amicable,” and said, “the transition was sudden, but it was well done.”

The split between Mr. Chenevert and his board and top managers occurred against the backdrop of a lackluster year for the conglomerate. United Technologies’ results

have been solid—its \$4.7 billion in profit through September are 11% higher than a year ago on sales up 5% to \$48 billion. But its stock price has stagnated. The shares closed on Friday at \$111.29, down more than 2% on the year, compared with a 9% gain for industrial peer Honeywell International Inc.

A French Canadian with a booming voice, Mr. Chenevert joined United Technologies two decades ago and worked his way up through the company’s Pratt & Whitney aviation business. The 6-foot-5-inch former CEO has a fierce blue-eyed gaze and could be an intimidating and unrelenting presence. Some people in the financial community said he was careful to put work first and was deeply loyal to the company.

He took over as chief executive in early 2008, just before the financial crisis hit, and steered the company’s stock price above \$110 last year after it fell below \$40 during the downturn. Mr. Chenevert’s signature move was the \$16.5 billion acquisition of Goodrich Corp. in 2012, a deal that expanded the company’s position selling electrical and other systems used in airplanes.

But he had a tough act to follow. His predecessor, George David, ran the company for 14 years and

pumped its stock price up by some 800%. Mr. David was a sailor and once had to be rescued after his yacht capsized during a race off Ireland.

Mr. Chenevert bought a 63-foot Hatteras motor yacht in 2003. He sold it after he had a new 85-foot vessel custom built by Horizon Yacht Co. at a factory in Kaohsiung, Taiwan. Both were christened “Debbie Lou”—an amalgamation of the nicknames of the CEO and his wife, Debra.

Mr. Chenevert sold his second yacht last year after listing it for \$3.3 million and is having a new, bigger one built by Horizon at the same factory. Mr. Chenevert stopped there to check in on the yacht’s progress from Nov. 10 to Nov. 12, a person familiar with the matter said.

The new vessel, a 110-foot-long P110, is being customized for Mr. Chenevert, the person said. The standard model can accommodate between 16 and 20 passengers, features an enclosed “sky lounge” above the main deck and is powered by twin 1,600-horsepower Caterpillar engines.

—Jon Ostrower and Julie Steinberg contributed to this article.

Merck Nears \$8 Billion Deal to Buy Drug Maker

By Peter Loftus and Dana Cimilluca

Drug giant Merck & Co. is nearing a deal to buy antibiotics maker Cubist Pharmaceuticals Inc. for more than \$8 billion, people familiar with the matter said.

Merck would pay about \$100 a share for Cubist, one of the people said. That’s roughly 34% over Cubist’s closing price Friday of \$74.36.

Cubist specializes in drugs to treat infectious diseases and other conditions, primarily in a hospital setting. Its flagship drug is Cubicin, an intravenous antibiotic used to treat serious infections that had \$967 million in sales in 2013. Analysts expect sales of the drug will continue to rise in coming years.

Antibiotics traditionally hasn’t been considered one of the drug industry’s most lucrative areas, but some analysts believe new versions could garner higher prices as it becomes more important for hospitals to reduce infections and as resistance to traditional antibiotics grows.

Merck’s interest in Cubist, first reported by the New York Times, appears to stem from a strategy announced in 2013 to narrow its focus to areas including diabetes, acute hospital care, vaccines and oncology.

Merck’s leaders have made clear they aren’t interested in pursuing large-scale acquisitions, but rather more modest-size, “bolt-on” deals that bolster the company’s research-and-development pipeline and its product lineup.

Merck has an aging drug portfolio and its top selling product, diabetes treatment Januvia, isn’t growing like it used to. The company recently got a cancer immunotherapy called Keytruda approved.

In August, Merck acquired Idenix Pharmaceuticals Inc., a developer of hepatitis C drugs, for about \$3.9 billion.

Merck’s war chest for such deals has grown partly by slimming down in other areas. The company sold its consumer-healthcare division to Bayer AG for \$14.2 billion in October, and the company has unloaded other products in smaller deals. Merck also reduced costs by laying off thousands of employees and closing offices.

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Corrections & Amplifications

Viswas Raghavan is head of banking for Europe, the Middle East and Africa at J.P. Morgan Chase & Co. A Page One article in the Friday-Sunday edition about prospects for oil-industry mergers and acquisitions incorrectly gave his title as head of investment banking for that region.

The Organization for Economic Cooperation and Development is based in Paris. A World News article in the Friday-Sunday edition about changes to labor laws in the Indian state of Rajasthan incorrectly said it is based in London.

Readers can alert the London newsroom of The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com or by calling +44 (0)20 7842 9901.

BUSINESS & FINANCE

Little Harmony in K-Pop Industry

By JEYUP S. KWAAK

SEOUL—When Jessica Jung announced her exit in September from Girls' Generation, one of South Korea's biggest pop-music acts, it threw a spotlight on an intensifying conflict between the industry's stars and their management agencies.

While Ms. Jung remains signed to the band's agency, **SM Entertainment** Co., her departure after seven years due to disagreements over her independent business plans points to broader troubles in the country's music business, performers and industry observers say.

Artists are increasingly pushing back against management due to frustrations over having little say in scheduling, musical direction and career development. International success and growth of revenue streams that rely more on individual stars than studio-built brands are emboldening artists to seek more control over their careers, observers say.

The clashes highlight strains in Korea's popular-music industry, dubbed K-pop, as declining domestic sales have companies looking to lock in alternative revenue streams even as artists clamor for greater autonomy.

Last year, revenue from recorded music grew 9.7% to \$211.3 million in Korea, according to the International Federation of the Phonographic Industry, but that followed a 4.3% decline the previous year and remained off from the \$215.3 million peak in 2001. As digital sales emerged but remained uncensored, revenue hit a low point of \$72.1 million in 2005.

Underscoring the success of the Korean popular-culture juggernaut, Korean export of TV programs, music and movies last year nearly doubled from five years earlier to \$446.4 million.

In an industry that values youth and novelty, K-pop groups and agencies are under pressure to succeed and make money as quickly as possible—often within five years as teenage fans move on. Given that time frame, K-pop performers say it is natural that stars like Ms. Jung try to line up alternative, stable sources of income in industries such as fashion and hospitality.



South Korean popular-music performers such as Girls' Generation are under pressure to succeed and make money quickly.

An industry-standard contract drafted by South Korea's Fair Trade Commission stipulates that an artist can't pursue a business opportunity that capitalizes on his or her brand or image without management's approval. It is unclear whether the contract for Ms. Jung—who said she was forced out of Girls' Generation—has the clause. Two artists interviewed for this article say theirs do.

SM declined to comment for this article. After Ms. Jung's announcement, the company accused her of failing to secure its approval for her fashion venture and added that other Girls' Generation members opposed it. Ms. Jung, who is 25 years old, said she was dropped "for no justifiable reason" in a statement released through a publicist. She declined to comment further.

The K-pop disputes have been piling up. Star Empire, an agency for nine-member male band Ze:a, said in October that singer Moon Jun-young would leave the group indefinitely. A month earlier, Mr. Moon posted on his personal Twitter ac-

count a message that read: "Where is the money that we've earned with our blood?" The agency said in a statement that the hiatus was by mutual consent. Mr. Moon couldn't be reached for comment. Thought the terms of his contract haven't been disclosed, in some cases Korean performers receive a cut of sales once they have passed a threshold.

SM in the late '90s pioneered the genre's signature single-sex idol-band formula in Korea, auditioning early-teen talents and training them in singing and dancing for years before their debuts.

Some music critics have compared the system to Detroit-based record label Motown in its '60s heyday for their prolific production of hits, using a roster of artists they groomed to appeal to mainstream audiences.

Many of SM's acts count among the industry's biggest stars. But sales of albums and singles began declining after 2000 as digital downloads and streaming took off in

South Korea, according to Kim Jin-woo, head researcher at Gaon Chart, a government-funded record sales aggregator. South Korean digital-music providers sell tracks in monthly subscription bundles, which can lower the cost of an individual track to less than 10 cents.

YG Entertainment, an SM rival that manages K-pop superstar Psy, wrote in its first-half earnings report this year that it envisions a "360-degree business model" that transcends music sales, developing videogames, cartoons and merchandise based on its artists. Representatives for YG didn't respond to requests for comment.

SM has been sued this year by two of the 12 members of its newest boy band, EXO, who want to nullify their contracts two years after their commercial debut. SM said in a statement that the singers were putting self-interest over the collective good of the group. The singers and their representatives, who haven't commented publicly, declined to be interviewed.

Cracks Emerge In Startups' Valuations

Continued from page 15
panies took a dive.

The market correction battered valuations for public companies in similar sectors as Hortonworks and New Relic, which means the IPO prices are now being set in line with those lower valuations, according to people familiar with the matter.

"Any disconnect between private and public market valuations is ephemeral, and corrects very quickly," said David Weild, chairman and CEO of investment bank Issu-Works Inc. and a former vice chairman of the Nasdaq Stock Market.

The potentially depressed valuations for Hortonworks and New Relic could be specific to their financial makeup.

Both companies employ large sales forces that have contributed to swelling losses, while their annual revenue is under the \$100 million threshold that bankers have typically set as IPO-ready.

Hortonworks had just \$33.4 million in revenue for the nine months ended Sept. 30. That doubled last year's mark but wasn't enough to outweigh expenses, which led to a nearly doubling of its loss to \$86.7 million.

The company announced in March that it had raised \$100 million at a valuation over \$1 billion, just one day after another business software company with a high-cost business model, Box Inc., publicly filed for its IPO. The company decided to delay its IPO as market conditions deteriorated.

An index of public cloud-computing stocks—which includes companies such as **Salesforce.com** Inc. and **Workday** Inc. and is tracked by Bessemer Venture Partners—fell more than 5% from a peak in February to mid-November.

The median enterprise value of the 38 companies in this index fell to 4.9 times next year's expected revenue from 6.4 times over that time period, according to Bessemer.

Hortonworks' funding round in March and July valued the shares at \$12.19 each, putting the company's valuation above \$1 billion.

Hortonworks recently conducted a 1-for-2 reverse stock split that effectively raised the share price to \$24.37. Bankers then set the proposed IPO price range at \$12 to \$14 a share, which cut its valuation nearly in half to about \$540 million, excluding stock grants.

New Relic said investors bought company stock in an April private investment round at about \$27.97 a share, or a valuation of more than \$1.1 billion. Currently the company proposes to sell its IPO shares at \$18 to \$20 each, valuing the company at as high as \$740 million excluding stock awards.

New Relic and Hortonworks had two of the same lead investors in their most recent private investment rounds: funds managed by **BlackRock** and Passport Capital. Mutual fund giants **T. Rowe Price** and Wellington Management also invested in New Relic's private stock sale announced in April.

Representatives for Passport Capital, T. Rowe Price and Wellington declined to comment. BlackRock didn't respond to requests for comment.

San Francisco based Passport has some protection from any gap between Hortonworks' IPO shares price and what the firm paid for Hortonworks stock earlier this year.

Alipay Is Handling More Mobile Payments

By JURO OSAWA

HONG KONG—**Alibaba Group Holding** Ltd. disclosed new data on Monday that showed its payment affiliate is increasingly processing more transactions through mobile devices.

The Chinese e-commerce giant said Alipay's mobile payments accounted for 54 out of every 100 payments this year through October, up 22% from last year, indicating China's more than 500 million smartphone users are growing more accustomed to using their handsets and mobile applications as payment tools.

Alipay, which was launched in 2004, now has over 300 million registered users, the company said, and processes more than 80 million transactions a day. Over the past decade, the total number of payments settled by Alipay has reached 42.3 billion, Alibaba said.

Mobile commerce represents one of the key growth engines for Alibaba over the next several years, af-

ter the company went public in a record \$25 billion initial public offering in the U.S. in September. In China's Internet industry, Alibaba faces fierce competition from online-games and social-networking firm Tencent Holdings Ltd. and search provider Baidu Inc.

In payments, Alibaba has an advantage over competitors thanks to Alipay. Alipay not only processes payments on Alibaba's Taobao and Tmall online marketplaces, but also handles many other types of online and offline payments, including utility bills, ticket booking, restaurant meals and taxi rides. **Ant Financial**, Alipay's parent company, has also expanded into financial services with Yu'e Bao, which allows Alipay users to invest in a money-market fund. As of September, Alibaba said Yu'e Bao had 149 million users, and the fund's total returns had reached 20 billion yuan (\$3.25 billion).

The new data also showed that mobile payment demand is strong in rural areas where fewer people own desktop computers. Of all the re-

gions, Tibet had the highest proportion of mobile payments, with more than 62% of total Alipay payments there coming through mobile devices, it said. While Alipay users in major cities such as Beijing and Shanghai were among the biggest spenders, Yiwu, a small city in Zhejiang province—the same province where Hangzhou, Alibaba's hometown, is located—had the highest average online spending per user of 65,160 yuan (\$10,595) this year, the data showed.

In the third quarter, China's online shopping transactions through mobile devices more than tripled from a year earlier to 201.32 billion yuan, according to research firm Analysys International. Taobao and Tmall accounted for 84% of those transactions, while **JD.com**, the e-commerce partner of rival Tencent, accounted for 8%, Analysys said.

Alipay's dominance in China is a factor behind the continuing talks between Alibaba and **Apple** Inc. about a possible partnership. In an interview last month, Alibaba Execu-

tive Vice Chairman Joseph Tsai said that a possible scenario is for Alipay to provide back-end services for Apple's Apple Pay payment system, allowing iPhone users in China to pay for goods with Apple Pay using money from their Alipay accounts. The details are still being worked out, Mr. Tsai said at the time.

Even though Alipay isn't directly owned by Alibaba, the business is effectively controlled by Alibaba executives. Ant Financial Chief Executive Lucy Peng is also an Alibaba senior executive. Alibaba Executive Chairman Jack Ma owns a minority stake in Ant Financial. Alibaba currently benefits from Alipay's growth through a profit-sharing agreement.

Alibaba originally launched Alipay as a payment system for Taobao. In 2011, Mr. Ma separated Alipay from Alibaba in a move that spurred criticism from major shareholder **Yahoo** Inc. at the time. Alibaba has said that the separation was aimed at ensuring Alipay could continue its payment business under new Chinese government rules.

BUSINESS & FINANCE

Morgan Stanley to Loosen Bonus Pay

By JUSTIN BAER

Morgan Stanley is giving its bankers more cash upfront after years of making them wait for their bonus money.

Beginning early next year, the Wall Street firm will start paying out a bigger slice of employees' bonuses immediately, while reducing the size of the delayed payouts that had grown more popular at banks in the wake of the financial crisis.

The move, announced Friday, reflects Morgan Stanley's firmer financial footing as well as its desire to deter top talent from moving to rivals with quicker payouts.

At stake is the firm's deferred compensation—stock and cash that is paid out gradually, over several years. Morgan Stanley said it would now defer, on average, about half of employee bonuses, down from an average of about 80% at its peak a few years ago. The firm also is speeding up the vesting period for certain cash deferrals, according to a filing with the Securities and Exchange Commission. Bonuses make up a big part of a Wall Street paycheck, especially for senior employees and others who generate revenue.

Morgan Stanley isn't the only bank de-emphasizing delayed gratification for its bankers and traders. Deferred bonus pay has been on a slow decline since 2010, according to consulting firm Johnson Associates Inc. Earlier this year, Johnson Associates estimated about 36% of a \$1 million bonus on Wall Street is deferred, compared with 45% in 2010.

Banks have gradually inched back toward paying more cash in order to be more competitive in "keeping and attracting talent" that might otherwise leave for hedge funds and private-equity firms, said Alan Johnson, managing director of Johnson Associates.

Morgan Stanley's new policies come as the Federal Reserve weighs how to implement rules on deferred compensation at the big banks.

At a speech in October, New York Fed President William Dudley suggested banks could enhance their deferred-pay programs by giving senior executives a "performance bond" that would keep management on the hook for a portion of any regulatory fines levied against a firm for wrongdoing.

While Morgan Stanley's pay move may appear to cut in the opposite direction, the firm still sets aside more in deferred pay than it did as it emerged from the crisis. In 2011, the proportion of bonus-eligible employees' compensation at the firm that was deferred rose to 75%, from 40% in 2009.

The New York firm run by Chairman and Chief Executive James Gorman was among the big banks that moved most aggressively toward using deferrals in the wake of the crisis. In part, that was because the delayed payments are designed to force employees to weigh more heavily the risks they take. The firm, which nearly collapsed during the turmoil, also was struggling to turn around its businesses and generate consistent profits. Deferred payments were a way to conserve cash in a tough market.

The move is a "recognition that banks had gone a little too far in deferring compensation," said Steven Eckhaus, chairman of the executive-compensation practice at Cadwalader, Wickersham & Taft LLP.

While deferred payments helped firms' short-term results, over time, they added commitments that accumulated on the firms' income statement, hurting companies' flexibility to cut expenses later.

"Now that our business strategy has stabilized, it is time to bring our deferral policy to an appropriate long-term level, in line with the rest of the industry," Mr. Gorman wrote in a memo to employees distributed Friday.

As Morgan Stanley recovered from the crisis, Mr. Gorman's unapologetic stance on higher bonus deferrals at times caused tension. At one point, he said bankers, traders and other staff who didn't like the payout programs should leave.

In early 2011, Mr. Gorman explained the deferral strategy to employees by saying it was important to show "discipline" in aligning their pay with shareholders' interests at a time when regulators had been focusing on higher deferrals.

After a tough year in 2012, Morgan Stanley deferred the entire annual bonuses of thousands of highly paid employees. In 2013, though, Morgan Stanley began to adapt its pay policies and paid out a bigger chunk of annual bonuses in cash.

The policies discussed with employees Friday will add about \$1.2 billion to Morgan Stanley's compensation costs in the fourth quarter. Morgan Stanley said in the filing it hadn't yet made decisions on the size of this year's bonuses, which are determined in December and discussed with employees in January. The new deferral policies will affect bonuses awarded to employees for their 2014 performance. It isn't clear how much of employees' deferrals will be in cash. Past deferred awards will remain on the same payout timetable, the company said.

Dalian Wanda, BAIC Ready Hong Kong IPOs

By PRUDENCE HO

HONG KONG—**Dalian Wanda Commercial Properties Co.**, the real-estate arm of Wanda Group, and **BAIC Motor Corp.**, a Chinese car maker partly owned by **Daimler AG**, are planning to raise a combined US\$5.4 billion in initial public offerings in Hong Kong this month.

Dalian Wanda Commercial Properties, which is owned by Chinese billionaire Wang Jianlin, plans to raise up to US\$3.8 billion by selling 600 million shares in an indicative price range of 41.80 to 49.60 Hong Kong dollars (US\$5.39 to US\$6.40) each, a person familiar with the situation said Sunday.

Meanwhile, BAIC Motor plans to raise up to US\$1.57 billion by selling shares in an indicative price range of HK\$7.60 to HK\$9.80 each, another person familiar with the situation said Saturday, representing 6.4 to 8.3 times its forecast earnings for 2015. BAIC couldn't immediately be reached for comment.

Both companies plan to start taking orders from investors Monday before listing in the city by the end of the year. Sentiment has recently improved toward Hong Kong IPOs.

China's largest nuclear-plant operator, CGN Power Co., last week saw the retail tranche of its IPO more than 250 times oversubscribed. It raised \$3.16 billion, after pricing the offering at the top end of the price range. Investors expect the firm will benefit from China's power policy, which encourages the use of clean energy.

Dalian Wanda, which had a debt-to-equity ratio of 87.8% as of the end of June, may also benefit from China's surprise interest-rate cut last month.

Shares of many Hong Kong-listed real-estate developers, which are



Auto manufacturer BAIC Motor aims to raise up to \$1.57 billion in an IPO.

heavily indebted, have surged recently. Guangzhou-based developer **Country Garden Holdings Co.** has climbed about 9% since the rate cut, while shares of state-owned property developer **China Overseas Land & Investment** have gained 16%.

The price range for Dalian Wanda Commercial Properties represents a 47% to 55% discount to 2015 forecast net asset value, while peer **China Resources Land**, whose shares are up about 14% since China's rate cut, trades at a 7% premium to forecast net asset value, according to FactSet.

Dalian Wanda Commercial, which sells apartments and operates shopping malls and hotels, will list in the city Dec. 23. It will use the proceeds from the IPO to fund the development of property projects.

Dalian Wanda and BAIC have sold part of their IPOs to cornerstone investors, which agree to hold shares for a certain period once the firms have listed, to increase the likelihood of success of the offering. In Hong

Kong, bankers can presell shares to cornerstone investors before the start of an official bookbuilding.

Dalian Wanda has secured sales of US\$2 billion worth of shares, or 62% of the deal, from 11 cornerstone investors. Kuwait Investment Authority, China Life Insurance Co. and Ping An Asset Management are buying US\$300 million each, while **Och-Ziff Capital Management** is buying US\$250 million.

Dalian Wanda, KIA, China Life, Ping An and Och-Ziff couldn't immediately be reached for comment.

BAIC has locked in sales of about US\$800 million worth of shares, or half the deal, from cornerstone investors. The identity of the cornerstone investors wasn't immediately known.

HSBC Holdings PLC and China International Capital Corp. are lead banks for Dalian Wanda's offering, while HSBC, **Citic Securities International**, Deutsche Bank and UBS AG are leading the BAIC offering, according to preliminary prospectuses.

Chinese Group Bets on Theme Parks

Continued from page 15

In 2011, the government stopped construction of locally approved theme parks larger than 20 hectares, or about 50 acres, to rein in local government spending and unauthorized development. Some of the bigger theme parks now have to be approved directly by the central government.

For foreign theme-park brands, securing land has been one of the biggest hurdles. Universal's single project took 13 to 14 years of negotiations with Chinese authorities, said Tom Williams, chief executive of Universal Parks & Resorts. Disney executives have described the negotiations to get Shanghai Disneyland approved as "a long and interesting process."

Wanda, one of China's best-known property developers, with 100 shopping malls across the country, has had an easier time.

Its focus on smaller cities has helped. Despite the government's crackdown, hinterland government officials are still eager to generate jobs and economic growth, and are more likely to grant land contracts, experts say.

In the coastal city of Wuxi, for example, Wanda has dedicated 40 billion yuan (\$6.5 billion) to development centered on a theme park.

Such strategies speed up the pro-

cess and "help them secure the land at low cost," said Zhu Guozhong, a real-estate and economics professor at Peking University's Guanghua School of Management, of Wanda.

Real-estate experts say sales of new condos as part of the theme-park push will also benefit Wanda's property arm, Dalian Wanda Commercial Properties, which is preparing to raise \$6 billion in a Hong Kong listing as soon as this year.

Making money may be harder in the smaller cities, said Mr. Zhu. Beijing and Shanghai, where Universal and Disney have launched projects, have no problem attracting tourists. But, he added, the investment and upkeep needed for Wanda's parks is also lower.

A Disney "Little Mermaid" look-alike decorates a fountain outside Wanda's "Movie Metropolis" in Qingdao.

But borrowing from the West will change, he said, as Wanda creates its own characters in the new theme parks.

Mr. Wang is already ditching Cinderella fantasy castles in favor of Chinese themes, spraying mist at tourists on a simulated ride over the mountains and temples of Hubei province at the Wuhan park.

The goal is to put China "on the stage and lead world-class entertainment," said Tang Jun, vice president

of the Beijing Wanda Cultural Industry Group, at a recent news briefing.

Success is far from inevitable for Wanda, which is a newcomer to a sector in which Disney has six decades of experience. Experts say it may be a steep learning curve to navigate safety, hospitality and entertainment.

Wanda already has some competition at home. A Chinese company called Overseas Chinese Town Enterprises Co. is currently China's largest amusement-park operator, running 18 parks with traditional roller-coaster-type rides.

Wanda is now racing to get its projects off the ground. In Wuhan, it is readying the opening of "The Han Show," a 90-minute love story highlighting Chinese history, at its pool-outfitted theater.

It isn't yet clear how the water fits into the story line.

As for Cirque du Soleil, it has scaled back its China ambitions. In 2013, the Canadian company's Michael Jackson show failed to fill all the seats on stops in Beijing and Shanghai. Cirque du Soleil didn't respond to requests for comment.

Wanda will learn lessons along the way, said Aecom's Mr. Yoshii. But he said it was worth noting that in 10 years, "they've gone from not being in the business at all to being one of the major players."



Morgan Stanley hasn't made decisions on the size of this year's bonuses.

BUSINESS & FINANCE

China’s Banks Seize On New Option in Bond-Issue Arsenal

By Prudence Ho
And Enda Curran

HONG KONG—Even as they battle souring loans and weak share prices, China’s banks have managed to raise a record US\$110 billion this year by tapping into investors’ desire for yield.

The fundraising has been dominated by the sale of bonds, including a preference-share option that was opened to banks this year. The amount raised is more than double last year’s US\$43 billion, Dealogic figures show, and tops the record of US\$82 billion raised in 2010, when one of China’s biggest banks, **Agricultural Bank of China Ltd.**, raised US\$22 billion in what was then the world’s biggest IPO.

Banks have gone on the capital-raising spree to cope with both rising bad loans and Beijing’s push for them to hold more capital. China’s banks chalked up a 36% surge in bad loans year over year in September amid the country’s slowest economic growth in five years. At the same time, regulators have imposed a 2018 deadline for banks to adopt the tough new global capital rules required by Basel III, a global standard for bank strength.

China’s banks will continue to tap markets for funds next year, “to fund their growth and to meet regulatory requirements,” said Grace Wu, senior director of financial institutions at Fitch Ratings.

While a recent surprise rate cut by China’s central bank has buoyed the country’s long-embattled bank stocks, shares of many banks, although rising, continue to trade below the value of their assets, or below book, making equity fundraising a second-best option to the wide-open bond window.

Preference shares have features of bonds and equity, but investors see the product more as a fixed-income tool.

Of the \$110 billion raised, 98% has come in the form of debt, from both bonds sold in China and offshore. About 22% of the debt has been from preference shares, which Beijing began allowing in April.

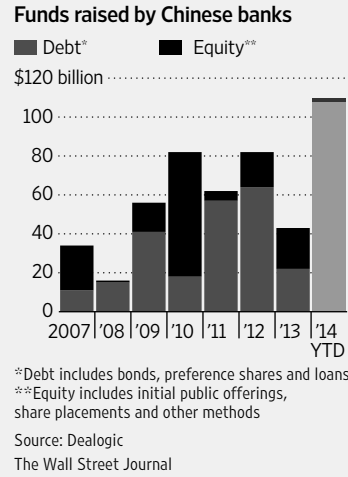
Preference shares have features of bonds and equity, but investors see the product more as a fixed-income tool because it pays interest regularly.

Preference shares give no voting rights to investors and could become worthless in the event of a default. But they can be converted into equity and they carry high yields to reflect the risks, a boon at a time when global interest rates remain low. They are also counted toward Tier 1 capital, a key measure of a banks’ financial strength within the Basel III framework.

China’s biggest lender by assets, **Industrial & Commercial Bank of China Ltd.** sold US\$5.69 billion in preference shares to investors last week, becoming the fourth mainland lender to sell such instru-

Capital Frenzy

Chinese banks have raised a record amount of capital this year, primarily through debt issuance.



ments, according to Dealogic. The yield on the bond was 6%, according to people familiar with the matter, well above the five-year U.S. Treasury bond yield of 1.6%, eliciting almost US\$28 billion in orders.

While stock-dividend yields at China’s big banks are generally high—at around 5% to 6%—buyers of preferred shares have the advantage of regular income without the volatility that besets the sector’s shares.

“Usually, institutional investors, such as pension funds and bond funds who have bond mandates, are interested in buying these preference shares,” said Dominique Jooris, head of credit capital markets for Asia, excluding Japan, at Goldman Sachs Group Inc.

Bank of China kicked off the sale of preference shares in October, selling \$6.5 billion worth in an offshore issuance at a 6.75% yield. In November, it raised an additional US\$5.2 billion in a domestic offering that yielded 6%.

Agricultural Bank of China raised 40 billion yuan (US\$6.5 billion) in October from domestic preference shares yielding 6%.

In all, seven Chinese banks have announced plans to raise more than US\$60 billion from preference shares.

The addition of the product to the arsenal of fundraising tools has come as a welcome relief at a time when the equity market, from IPOs to secondary share sales, has been closed off. China doesn’t allow banks to raise equity if they sell shares below their book value, while many recent listings, such one in March by **Harbin Bank Co.**, are trading below their issue price.

“It seems highly unlikely at this point that we will see much common-equity [share sales] issuance by mainland banks,” said Mizuho Securities analyst Jim Antos.

China Guangfa Bank, in which **Citigroup Inc.** is a shareholder, and **Bank of Shanghai**, partly owned by **HSBC Holdings PLC**, picked banks to handle planned listings more than two years ago but have yet to begin the process of going public and are unlikely to do so in coming months, according to people familiar with the matter.

—Anjani Trivedi
contributed to this article.

Bad Loans Could Peak In Second Half of 2015

BELJING—China’s banks will continue to see a rise in bad loans, which are expected to peak in the second half of next year, as the world’s second-largest economy slows, one of the country’s state-run “bad banks” said.

The ongoing slump in China’s real-estate sector will be the biggest cause of loans going bad for the nation’s banks as property developers struggle with falling prices and tight credit, China Orient Asset Management Corp. said in its annual report on the market for soured assets.

The government set up four state-run asset management companies—including China Orient and Cinda Asset Management Corp.—in the late 1990s in response to a previous surge of bad loans. The four companies, also known as bad banks, took some 1.3 trillion yuan of

soured debt off the books of the nation’s top four state-run banks.

The asset-management companies buy bad loans at a discount from banks and other financial institutions and then try to recover as much as possible, sometimes selling the assets backing the loans, seeking to make a profit along the way. Earnings at Cinda Management have been good enough to make it possible for the company to list its shares in Hong Kong last year.

“If home prices fall around 30%, it will exceed banks’ ability to bear the losses,” China Orient said in the report, which was released late on Thursday.

Nonperforming loans at China’s banks rose 36% year on year to 766.9 billion yuan (\$123.7 billion) at the end of September. The volume of bad loans has expanded for 12

consecutive quarters as the economy has expanded less rapidly.

China’s economy, which not long ago had been growing at annual percentage rates in the double digits, expanded at a rate of 7.3% in the third quarter, down from 7.5% in the second quarter. Growth totaled 7.7% for all of 2013.

China Orient predicted that bad loans at Chinese banks would stand at 827.74 billion yuan at the end of this year and that the bad-loan ratio would reach 1.23%, up from 1.16% at the end of September.

Asset-management companies such as China Orient hold positive views regarding the market for soured assets because nonperforming loans continue to mount, but they are also encountering intensified competition from local bad banks.

— Grace Zh

ADVERTISEMENT

Legal Notices

BANKRUPTCIES

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
In re:)
NAUTILUS HOLDINGS LIMITED, et al.,)
Debtors.)

Chapter 11
Case No. 14-22885 (RDD)
(Jointly Administered)

NOTICE OF HEARING TO CONSIDER CONFIRMATION OF, AND DEADLINE FOR OBJECTING TO, THE JOINT PLAN OF REORGANIZATION OF NAUTILUS HOLDINGS LIMITED AND CERTAIN OF ITS AFFILIATES PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE

PLEASE TAKE NOTICE OF THE FOLLOWING:

1. CHAPTER 11 CASES. On June 23, 2014, Nautilus Holdings Limited and certain of its affiliates, the above-captioned debtors and debtors in possession (collectively, the “Debtors”) filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). By order of the Bankruptcy Court, the cases are being jointly administered for procedural purposes under Case No. 14-22885.

2. APPROVAL OF DISCLOSURE STATEMENT. On November 19, 2014, the Debtors filed the Amended Joint Plan Of Reorganization of Nautilus Holdings Limited and Certain of Its Affiliates dated November 19, 2014 (as may be amended, the “Plan”). On November 19, 2014, the Debtors filed the proposed Disclosure Statement for the Joint Plan of Reorganization of Nautilus Holdings Limited and Certain of Its Affiliates Pursuant to Chapter 11 of the Bankruptcy Code dated November 19, 2014 (as may be amended, the “Disclosure Statement”). By order dated December 3, 2014 (Docket No. 241) (the “Disclosure Statement Approval Order”), the Bankruptcy Court approved the Disclosure Statement for the Debtors’ Plan. Pursuant to the Disclosure Statement Approval Order, the Bankruptcy Court also approved (i) certain key dates relating to confirmation of the Plan, (ii) procedures for solicitation of votes to accept or reject the Plan, (iii) forms of ballots and notices to be distributed in connection with solicitation, (iv) procedures for tabulation of votes to accept or reject the Plan, and (v) procedures for notice of a confirmation hearing and filing objections to confirmation of the Plan.

3. RECORD DATE FOR VOTING PURPOSES. Only creditors who hold Claims on **November 14, 2014** (the “Voting Record Date”) are entitled to vote on the Plan. All votes to accept or reject the Plan must be actually received by the Voting Agent by no later than **December 26, 2014 at 5:00 p.m. (prevailing Eastern time)** (the “Voting Deadline”). Any failure to follow the voting instructions included with your ballot may disqualify your ballot and your vote.

4. ENTITLEMENT TO VOTE ON THE PLAN. Holders of Claims in the following Classes are entitled to vote to accept or reject the Plan: **Classes 3, 4, 5, 6, 7, 8, 9, 13, and 14.**

Holders of Claims and Interests in the following Classes are not entitled to vote on the Plan: **Classes 1, 2, 10, 11, and 12.**

5. CONFIRMATION HEARING. A hearing to consider confirmation of the Plan (the “Confirmation Hearing”) will be held before the Honorable Robert D. Drain, United States Bankruptcy Judge for the Southern District of New York, in the Bankruptcy Court, 300 Quarropas Street, Room 118, White Plains, New York 10601, on **January 9, 2015 at 10:00 a.m. (prevailing Eastern time)**, or as soon thereafter as counsel may be heard. The Confirmation Hearing may be adjourned from time to time without further notice to creditors, equity holders, or parties in interest other than by an announcement in the Bankruptcy Court of such adjournment on the date scheduled for the Confirmation Hearing or as indicated in any notice of adjournment filed by the Debtors with the Bankruptcy Court, and the Plan may be further modified, if necessary, prior to, during, or as a result of the Confirmation Hearing, without further notice to parties in interest.

6. INJUNCTIONS, RELEASES AND EXCULPATION. The Plan contains certain injunction, release, and exculpation provisions, including releases by Holders of Claims and Interests, that are subject to approval by the Bankruptcy Court and may be found at Article IX of the Plan and Article IV of the Disclosure Statement. **THUS, YOU ARE ADVISED TO REVIEW AND CONSIDER THE PLAN CAREFULLY BECAUSE YOUR RIGHTS MAY BE AFFECTED THEREUNDER.**

7. RELEASES BY HOLDERS OF CLAIMS AND INTERESTS. Article IX of the Plan provides for the following release by Holders of Claims and Interests:

Except as otherwise provided in the Plan or the Plan Supplement, as of the Effective Date, each Holder of a Claim against or Interest in a Debtor, to the fullest extent permissible under applicable law, as such law may be extended or interpreted subsequent to the Effective Date, shall be deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever released and discharged the Debtors, the Reorganized Debtors, the Estates, the Equity-Related Entities, and the Released Parties from any and all Claims, Interests, obligations, rights, suits, damages, Causes of Action, remedies and liabilities whatsoever, including any derivative Claims assertable on behalf of a Debtor, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity, or otherwise, that such Person would have been legally entitled to assert (whether individually or collectively), based on or relating to, or in any manner arising from, in whole or in part, the Debtors, the Debtors’ restructuring, the Chapter 11 Cases, the purchase, sale, or rescission of the purchase or sale of any security of the Debtors or the Reorganized Debtors, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan or the Plan Supplement, the business or contractual arrangements between any Debtor, Reorganized Debtor, Estate or non-Debtor Affiliate and any Released Party, the restructuring of Claims and Interests before or during the Chapter 11 Cases, the negotiation, formulation, or preparation of the Plan,

the Disclosure Statement, the Plan Supplement, or related agreements, instruments, or other documents, or any other act or omission, transaction, agreement, event or other occurrence including or pertaining to the Debtors and taking place on or before the Effective Date, *provided, however that nothing in this Section 9.4(b) shall be construed to release any party or entity from gross negligence, intentional fraud, willful misconduct, or criminal conduct, as determined by a Final Order; provided further, however, that this Section 9.4(b) shall not release the Debtors, the Reorganized Debtors, the Estates, the Equity-Related Entities or the Released Parties from any Cause of Action held by a governmental entity existing as of the Effective Date based on (i) the Internal Revenue Code or other domestic state, city, or municipal tax code, (ii) the environmental laws of the United States or any domestic state, city, or municipality, (iii) any criminal laws of the United States or any domestic state, city, or municipality, (iv) the Securities and Exchange Act of 1934 (as now in effect or hereafter amended), the Securities Act, or other securities laws of the United States or any domestic state, city or municipality, (v) the Employee Retirement Income Security Act of 1974, as amended, or (vi) the laws and regulations of the Bureau of Customs and Border Protection of the United States Department of Homeland Security. Notwithstanding anything to the contrary in this Section 9.4(b), a Holder of a Claim shall be deemed not to provide the releases set forth in this section if such Holder (i) votes to reject the Plan and (ii) “opts out” of the releases provided in this Section 9.4(b) of the Plan in a timely submitted, valid Ballot, *provided, however, that nothing in this sentence shall limit the discharge contained in Section 9.5 of the Plan. For the avoidance of doubt, nothing in this Section 9.4(b) shall release any Claims relating to actions or conduct occurring after the Effective Date and arising under or relating to the New Credit Facilities.**

8. OBJECTIONS TO CONFIRMATION. Any responses or objections to confirmation of the Plan must (a) be in writing; (b) comply with the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, the Local Bankruptcy Rules for the Southern District of New York, Chambers’ procedures and other case management rules and orders of this Bankruptcy Court; (c) state the name and address of the responding or objecting party and the nature and amount of the claim against or interest in the estates or property of the Debtors; (d) state with particularity the legal and factual basis for such response or objection; (e) be filed with the Clerk of the United States Bankruptcy Court for the Southern District of New York, together with proof of service thereon; and (f) be served by personal service or overnight delivery, so as to be ACTUALLY RECEIVED no later than **January 2, 2015 at 4:00 p.m. (prevailing Eastern time)** by: (i) the Debtors, c/o Synergy Marine Limited, Laphion Tower, 5 Deligiorgi Street, 1066 Nicosia, Cyprus, Attn: Andreas Maroulettis; (ii) counsel to the Debtors, Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, NY 10036, Attn: Jay M. Goffman and Mark A. McDermott; (iii) the Office of the United States Trustee, U.S. Federal Office Building, 201 Varick Street, Suite 1006, New York, NY 10014, Attn: Paul K. Schwartzberg; (iv) counsel to HSH Nordbank AG, Seward & Kissel LLP, One Battery Park Plaza, New York, NY 10004, Attn: John R. Ashmead, Lawrence Rutkowski, and Catherine LoTempio; (v) counsel to HSH Nordbank AG, White & Case LLP, 1155 Avenue of the Americas, New York, NY 10036-2787, Attn: Scott Greissman and Mark Franke; (vi) counsel to Citibank International Plc, Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, NY, 10019-6064, Attn: Alan W. Kornberg, Elizabeth R. McColm, Margaret A. Phillips, and Oksana Lashko; (vii) counsel to DVB Bank SE, Weil, Gotshal & Manges, LLP, 767 Fifth Avenue, New York, NY 10153-0119, Attn: Joseph H. Smolinsky and Gabriel A. Morgan; and (viii) all entities that requested notice in these chapter 11 cases.

ONLY THOSE RESPONSES OR OBJECTIONS THAT ARE TIMELY FILED AND RECEIVED WILL BE CONSIDERED BY THE BANKRUPTCY COURT. OBJECTIONS NOT TIMELY FILED AND SERVED IN THE MANNER SET FORTH ABOVE WILL NOT BE CONSIDERED AND WILL BE DEEMED OVERRULED.

9. ADDITIONAL INFORMATION. Copies of the Disclosure Statement and the Plan may be obtained from (i) the office of the Clerk of the Bankruptcy Court (the “Clerk’s Office”) during normal business hours; (ii) the Bankruptcy Court’s electronic case filing system at www.nysb.uscourts.gov (a PACER login and password are required to access documents on the Bankruptcy Court’s website and can be obtained through the PACER Service Center at www.pacer.psc.uscourts.gov); or (iii) the Debtors’ solicitation agent, Epiq Bankruptcy Solutions, LLC (the “Voting Agent”), (a) at the Debtors’ restructuring website at <http://dm.epiq11.com/NTH>, (b) upon request by mail to the addresses set forth below or (c) upon request by telephone at (646) 282-2500 or by e-mail at tabulation@epiqsystems.com and include “Nautilus” in the subject line. **PLEASE NOTE: neither the staff of the Clerk’s Office nor the Voting Agent can give legal advice.**

IF BY FIRST-CLASS MAIL: Nautilus Holdings Limited, Ballot Processing Center, c/o Epiq Bankruptcy Solutions, LLC, FDR Station, P.O. Box 5014, New York, NY 10150-5014; **IF BY HAND DELIVERY OR OVERNIGHT COURIER:** Nautilus Holdings Limited, Ballot Processing Center, c/o Epiq Bankruptcy Solutions, LLC, 757 Third Avenue, 3rd Floor, New York, NY 10017.

Dated: New York, New York, December 4, 2014

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP, By: */s/ Jay M. Goffman*, Jay M. Goffman, Mark A. McDermott, Shana A. Elberg, Suzanne D.T. Lovett, Four Times Square, New York, New York, 10036, (212) 735-3000, Counsel for Debtors and Debtors in Possession

¹ Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Plan.

BUSINESS & FINANCE



Arctech Helsinki Shipyard, which built this icebreaker sitting in Finland, is 50%-owned by Russia's United Shipbuilding.

Ties Complicate Blacklist

Continued from first page

Lee, a partner at Gibson Dunn & Crutcher LLP. That is a change from the other sanctions regimes, which have generally focused on targets that are more isolated from the global business community, she said.

"It's really hard to comply with the Russian sanctions," said Ms. Lee. Among the challenges is finding accurate information on who owns what.

Among the businesses with ties to people and entities on Russia and Ukraine sanctions lists are a Finland-based shipbuilder and a Pennsylvania titanium company.

Arctech Helsinki Shipyard Inc., a Finland-based builder of Arctic icebreaking ships, is 50%-owned by Russia's United Shipbuilding Corp., which works with partner STX Finland Oy, according to its website and the Dow Jones data. Americans and American companies were barred in July from doing business with the Russian state company and, because of the size of the Russian stake, would also be barred from dealings with Arctech Helsinki.

Arctech didn't respond to a request for comment.

Further complicating matters: U.S. authorities don't provide any list of these subsidiaries, leaving companies to do their own research on the ties a business partner might have to the sanctions list. Mean-

while, many global companies have to scrutinize sanctions lists from the European Union and other countries, which contain some different names than the U.S. lists.

That means companies are left with the difficult task of figuring out if their business partners are connected to sanctions. To do this, they are turning to technology, beefing up their compliance departments and hiring specialized investigators.

Companies face strict liability if they violate the sanctions laws, meaning they can be penalized with civil fines even if they didn't know about the violation. The Treasury Department does, however, often lighten penalties for sanctions violations if a company has a good compliance program or wasn't aware of the violation.

Doing business with these subsidiaries is prohibited in some cases and allowed in others, and sometimes falls in a gray area. For example, the U.S. put large Russian firms including Bank of Moscow and Rosneft on a less restrictive sanctions list known as the Sectoral Sanctions Identifications, or SSI, list that bans U.S. companies only from specific activities like providing equity or debt financing beyond the short-term. Those same specific restrictions apply when dealing with certain subsidiaries of SSI list companies.

Despite the looser restrictions, experts say U.S. firms still need to be wary of subsidiaries of companies on any sanctions list. "Once an entity is on the SSI list, you know that they're in the crosshairs of the U.S. government," said Ms. Lee.

Uniti LLC, a Moon Township, Pa., titanium joint venture between **Allegheny Technologies Inc.** and what an Allegheny Technologies spokesman described as a U.S. subsidiary of Russia's VSMPO-Avisma Corp., is linked to the sanctions list, according to the database. The Russian company is 25%-owned by **Rostec**, a state-owned entity that the U.S. placed on the less-restrictive SSI list in September.

The spokesman for Allegheny Technologies said "business is as normal" in the joint venture.

Restrictions typically kick in only when doing business with certain subsidiaries: those that are owned 50% or more by a blacklisted party. But officials have signaled that companies should be careful doing business with a firm that is less than 50%-owned by a person or entity on these sanctions lists.

"If you're dealing with a company that may be 33%-owned by designated parties, I would sweat a little bit," said John E. Smith, deputy director at the U.S. Department of the Treasury's Office of Foreign Assets Control, at a Dow Jones conference in April.

Alliance to Help Bangladeshi Plants

By SYED ZAIN AL-MAHMOOD

DHAKA, Bangladesh—After the deadly collapse of the Rana Plaza factory building last year, the thorny question remained as to who would pay to bring Bangladesh's garment factories up to code.

Now, some 18 months after the disaster that killed more than 1,100 people, an alliance of international retailers—led by **Wal-Mart Stores Inc.**, **Gap Inc.** and **VF Corp.**—has come up with a plan. The group, Alliance for Bangladesh Worker Safety, has established a mechanism that will give Bangladeshi factories access to low-cost loans backed by a corporate guarantee. Ian Spaulding, a senior adviser to the alliance, said member brands struck a deal with the International Finance Corp., the World Bank's financing arm, to facilitate the loans, the first of which have been disbursed in the past couple of weeks.

If the arrangement works as planned, it could be a boon to factory owners like Syed Kamrul Huda. Raising money "to comply with the new inspection regime has become a major headache," said Mr. Huda, whose company makes clothes for European and U.S. suppliers, including VF. With thin profit margins and bank interest rates close to 18%, his company can't afford to pay upfront the \$1 million needed for new safety features that meet international standards, he said.

Last month Mr. Huda's company, Arunima Sportswear, received regulatory approval for a loan of \$900,000 from the IFC to buy fire doors, safety lights and automatic-sprinkler systems. The three-year loan, backed by a guarantee from North Carolina-based VF, carries a 5% annual interest rate—less than one-third the rate he would get from local banks, Mr. Huda said.

International inspectors estimate that around \$400 million will be needed to fix nearly 2,000 factories producing clothes for retailers.

Bangladeshi government officials and garment manufacturers have urged major brands and retailers to do more to help factories pay for upgrades. Multinational apparel companies, which typically shift orders between several countries depending on costs, have been wary of investing in factories they don't

own. After the 2013 disaster, two parallel corporate-backed groups were formed to tackle safety issues in Bangladesh's garment industry. The Alliance for Bangladesh Worker Safety is made up of 26 mostly North American-based companies. The other is the Accord on Fire and Building Safety in Bangladesh, which includes 189 retailers including Zara-parent **Inditex SA** of Spain and Sweden's **Hennes & Mauritz AB**.

The groups have taken different approaches. Backers of the accord, an agreement between mostly European retailers and global workers' unions IndustriALL and Uni, say their plan is superior because participating brands must ensure sufficient funding for factory upgrades and offers stronger worker representation. The alliance counters that it has stood by workers by helping to pay them when factories were closed by its inspectors. The accord has said that paying workers during closures was a factory owner's responsibility.

Olaf Schmidt, a senior IFC official, called the loan mechanism "an efficient tool to resolve the issue of financing the corrective action plan" for the factories. Tom Nelson, VF's vice president of global procurement, said up to \$10 million would be available from the IFC to finance safety modifications at Bangladeshi factories producing clothes for VF. He said the loans were a measure of the strength of VF's relationships with its 90-odd suppliers in the country.

A spokesman for Wal-Mart confirmed the retailer was working on a "supplier finance option" broadly similar to VF's deal with the IFC. Two other alliance signatories are close to similar loan arrangements, according to alliance officials. The accord says its member brands were also considering the IFC loan program. Joris Oldenziel, a spokesman for the accord, said that although the IFC program hadn't been "operationalized" with accord signatories, "a fair number of accord signatories have shown an interest and are in the process of working out the arrangements."

In October, the accord said it had finished inspecting nearly 1,100 of the about 1,600 factories that make clothes for its members while the alliance said it had checked roughly 600 factories that its members use.

Consumer Stocks Draw Fans in U.S. as Oil Price Falls

Continued from page 15

road and rail stocks, up 6.8%, and gas and electric utilities, up 3.9% and 9.4%, respectively.

By contrast, energy-equipment and services stocks in the S&P 500 are down 21% in the fourth quarter.

But some investors already are warning that the rally has brought shares of retailers favored by low-income consumers to pricey levels.

Stocks of many retailers are trading at higher valuations than broad market indexes, raising concerns that further gains could be limited.

The shares could be vulnerable to disappointments during the holiday season, such as the recent weak Black Friday sales, which fell 11% from the year before, according to an industry trade group.

"There are probably more gains to come, [but] you probably need to

be a little more selective," said Paul Karos, a portfolio manager with Denver-based Whitebox Mutual Funds, which manages more than \$1 billion. "The big, quick bounce has already happened."

O'Reilly, for example, is trading at 23 times next year's expected earnings, according to FactSet, above its 10-year average of 17.6 and well above the S&P 500, which is trading at 16.2 times next year's forecast earnings.

The stocks in the SPDR S&P Retail exchange-traded fund are trading at 22 times Wall Street analysts' expected earnings for the next year, according to FactSet, above their 10-year average of 16.

But many bullish retail investors say the gathering U.S. recovery will trump valuation concerns. On Friday, the government reported U.S. employers added 321,000 jobs in

November, putting the economy on track for its best year of job growth since 1999.

"If [the economy] keeps adding jobs, there are more people to spend," said Ralph Segall, chief investment officer of Chicago-based Segall Bryant & Hamill, which manages \$9 billion.

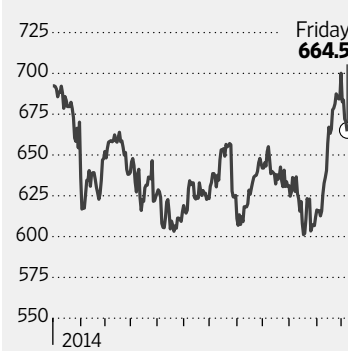
To be sure, falling gas prices are no panacea. Consumers are still pinched by soft wage gains and many still have yet to find full-time work.

"The consumer is still very discerning about where they're spending their money," said Peter Dixon, who helps manage \$2.5 billion of consumer stocks for Fidelity Investments, including the \$810 million Fidelity Select Retailing Portfolio. Mr. Dixon owns shares of auto-parts retailers AutoZone Inc. and O'Reilly Automotive.

Shopping Spree

Tumbling oil prices have prompted investors to load up on retail stocks, raising concerns among some that the rally could be overdone.

Dow Jones U.S. Broadline Retailers Index



*Based on the next 12 months expected earnings
Source: FactSet

P/E ratio*, S&P 500 Hypermarkets and Super Centers index



The Wall Street Journal

MARKETS

Confectioners Are Stung in Nut Crunch

By HUILENG TAN
AND ALEXANDRA WEXLER

The world is in a hazelnut crunch.

Known for their sweet, distinctive flavor and crunchiness, hazelnuts are widely used in high-end chocolate items from pralines to truffles and in Ferrero SpA's popular Nutella spread. But this year, the \$3 billion industry is in turmoil after an unexpected frost in Turkey, supplier of more than 70% of the world's hazelnuts, damaged flowers and cut production 28% to 480,000 metric tons.

The result is that prices have more than doubled this year to 14 Turkish lira (\$6.27) per kilogram, with buyers scrambling to secure supplies ahead of the peak demand season at Christmas and the Lunar New Year.

The rise in hazelnut prices is a double whammy for confectioners that are already facing high cocoa prices this year due to worries that the deadly Ebola outbreak in West Africa could spread to the top-cocoa growing countries in the region, choking off the flow of beans from farms to ports.

"I'd be doing a lot better if hazelnut prices were lower," said Dite Van Clief, president of Euro-American Brands, the exclusive U.S. importer and distributor of Ritter Sport chocolate bars from Germany.

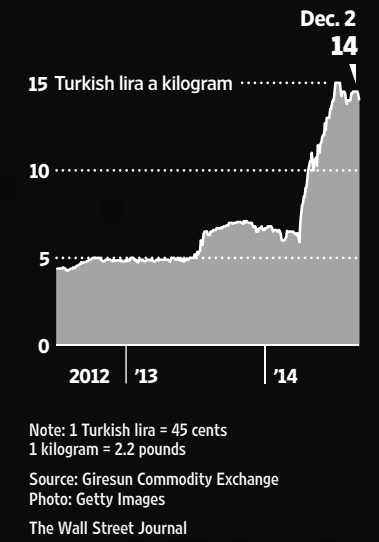
The company's two best sellers are a dark-chocolate bar with whole hazelnuts and a milk-chocolate bar with whole hazelnuts. The nuts for both bars come from Turkey. The two bars make up about 40% of Ritter Sport's annual \$30 million in U.S. sales, Mr. Van Clief said. Largely as a result of higher hazelnut prices, the company plans to announce an 8% price increase across all of its Ritter Sport products this month, he added.

Turkish farmers are one winner,



Workers check hazelnuts in Trabzon, Turkey.

Going Nuts
Price of hazelnuts in Turkey



benefiting from the high prices.

They are keeping supply tight by holding back from selling, said trader Adam Johnston of Edinburgh-based commodity firm Free-world Trading. Anticipating even higher prices, farmers tend to hold back supply when prices are rising.

But many other companies involved in the business are being hurt. Hershey Co., the biggest U.S. chocolate confectionary retailer and maker of Hershey's Kisses and Milk Chocolate, Kit Kat bars and Reese's Pieces, announced an average wholesale-price increase of 8% across the majority of its products in July because of rising costs, including higher nut prices.

At the end of October, Hershey lowered its outlook for the year. The company said it now expects sales to rise about 4.75% and per-share earnings to increase roughly 8%, versus its previous call for sales

near the low end of its long-term 5%-to-7% target range and per-share earnings growth around the low end of its target of 9% to 11%.

The company has a 36.2% share of the U.S. chocolate market, according to market-research firm Euromonitor International, and said prices for ingredients such as cocoa, dairy and nuts "have increased meaningfully since the beginning of the year."

Italy's Ferrero, the world's largest buyer of hazelnuts, snaps up 20% to 25% of the annual crop for its signature chocolate spread. The company's U.S. website says each 13-ounce jar of the spread contains more than 50 hazelnuts.

The closely held company said in an email that it is accustomed to volatility in the raw-materials market and is able to manage the shortage, so it doesn't expect any Nutella shortages. It is evaluating the size

of the hazelnut harvest and will "contain the impending impact [of the corresponding cost] on the end consumer as much as possible."

The company also makes Rocher chocolates, a popular gift in Asia. In July, it bought the world's largest hazelnut producer, Oltan Group of Trabzon, Turkey, in an effort to better secure supplies.

Global chocolate demand is forecast to hit a record this year, thanks in part to increasing consumption in Asia. Sales in India are expected to soar 14% this year, according to Euromonitor, while overall sales in the Asia-Pacific region are expected to increase 5.5%, far outpacing expected global retail-sales volume growth of 1.5% in 2014.

Olam International Ltd., a Singapore commodity-trading firm that is the world's second-largest supplier of hazelnuts, said last month that the hazelnut supply squeeze

was one of the biggest contributors to a 2.9% decline in its profit last quarter, which ended Sept. 30. The company expects the impact of the crunch to linger into the firm's fiscal second quarter. It also could mean hazelnuts are left out of mixed-nut packs.

The International Nut and Dried Fruit Council said this year's bad weather will hit the trade more severely than in shortages in 2011, 2004 and 1993, when Turkey also suffered frost.

"In those years, there were good carry-over volumes that helped the industry to close the gap [from the poor yields]," said the Spain-based organization. "However, rising global consumption of hazelnuts and a mediocre 2013 crop have not provided enough carry-over to satisfy the demand of 2014 crop year."

—Yeliz Candemir contributed to this article.

Advertisement

INTERNATIONAL INVESTMENT FUNDS

NAV

—%RETURN—

FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
■ ALEXANDRA INVESTMENT MANAGEMENT									
Alexandra Commodity Bond Fund, Ltd. (Class A) OT OT VGB 08/31 USD 2155.22 NS NS NS									
■ BANC INTERNACIONAL D'ANDORRA. BANCA MORA.									
Avgd. Meritell 96, Andorra la Vella, Andorra. Ph. +376.884884 www.bibm.ad									
Andfs. Anglaterra UK EQ AND 11/16 GBP 8.47 23 3.6 14.9									
Andfs. Borsa Global GL EQ AND 12/04 EUR 5.90 -11.4 -9.9 0.2									
Andfs. Emergents GL EQ AND 11/02 USD 14.77 -20.4 -19.2 -4.7									
Andfs. Espanya EU EQ AND 12/04 EUR 13.88 -1.8 3.6 17.4									
Andfs. Estats Units US EQ AND 12/04 USD 22.57 7.9 10.1 18.6									
Andfs. Europa EU EQ AND 12/04 EUR 6.95 -7.7 -4.3 4.7									
Andfs. Franca EU EQ AND 02/24 EUR 10.98 0.2 17.7 13.7									
Andfs. Japo JP EQ AND 12/04 JPY 753.85 8.1 10.5 31.6									
Andfs. Plus Dollars US BA AND 10/22 USD 9.66 2.3 3.0 6.2									
Andfs. RF Dollars US BD AND 12/04 USD 12.53 3.1 3.3 1.3									
Andfs. RF Euros EU BD AND 12/04 EUR 11.98 2.8 3.0 1.9									
Andorfon US BD AND 12/04 EUR 15.85 1.2 1.4 2.0									
Andorfon Alternative Premium GL EQ AND 12/31 EUR 109.45 16.9 16.9 8.3									
Andorfon Mix 30 EU BA AND 12/04 EUR 10.24 -0.7 0.3 2.2									
Andorfon Mix 60 EU BA AND 12/19 EUR 8.96 4.4 7.1 -2.5									
■ CG Portfolio Fund Ltd									
NAV OT OT CYM 06/07 GBP 25839.68 5.3 10.9 9.8									
■ CHARTERED ASSET MANAGEMENT PTE LTD - TEL NO: 65-6835-8866									
Fax No: 65-6835 8865, Website: www.cam.com.sg, Email: cam@cam.com.sg									
CAM-GTF Limited OT OT MUS 11/28 USD 345710.32 4.1 3.6 -5.9									
■ Citadele									
Republikas square 2a, Riga, LV-1522, Latvia									
Citadele Eastern Europ Bal EU BD LVA 12/04 EUR 15.73 -5.1 -4.2 -1.2									
Citadele Eastern Europ Bd EU EQ LVA 12/05 EUR 19.48 -4.5 -3.5 -0.5									
Citadele Russian Eq EE EQ LVA 12/04 USD 13.59 -39.5 -36.8 -19.7									
■ DJE INVESTMENT S.A.									
internet: www.dje.lu email: info@dje.lu phone: +00 352 269 2522 0 fax: +00 352 269 25252									
DJE Real Estate P OT OT LUX 12/05 EUR 3.26 -10.5 -10.9 -9.6									
DJE Absolute P OT OT LUX 12/05 EUR 257.87 3.1 5.6 7.5									
DJE Alpha Gbl P OT OT LUX 12/05 EUR 194.35 0.4 3.9 8.0									
DJE-Divd Substanz P OT OT LUX 12/05 EUR 313.61 10.9 12.9 11.8									
DJE-Divd Resourc P OT EQ LUX 12/05 EUR 116.35 -4.1 -2.5 -18.0									
DJE-Renten Gbl P EU BD LUX 12/05 EUR 152.27 5.7 5.8 3.9									
LuxPro-Dragon I AS EQ LUX 07/20 EUR 144.57 -8.5 5.0 7.6									
LuxPro-Dragon P AS EQ LUX 07/20 EUR 140.29 -8.8 4.4 7.0									
LuxTopic-Aktien Europa EU EQ LUX 12/05 EUR 20.79 2.0 4.7 4.7									
LuxTopic-Pacific OT OT LUX 12/05 EUR 21.31 6.9 6.1 1.3									

NAV

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FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
■ HERMITAGE CAPITAL MANAGEMENT LTD.									
Tel: +7501 258 3160 www.hermitagefund.com									
The Hermitage Fund GL EQ JEY 03/12 USD 963.12 4.5 105.6 -23.2									
■ HORSEMAN CAPITAL MANAGEMENT LTD.									
T: +44 (0) 20 7838 7580, F: +44 (0) 20 7838 7590, www.horsemancapital.com									
Horseman EurSell Ltd EUR EU EQ GBR 10/31 EUR 315.71 NS NS NS									
Horseman EurSell Ltd USD EU EQ GBR 09/30 USD 341.95 NS NS NS									
Horseman Gbl Ltd EUR GL EQ CYM 10/31 USD 569.80 NS NS NS									
Horseman Gbl Ltd USD GL EQ CYM 10/31 USD 569.80 NS NS NS									
■ HSBC ALTERNATIVE INVESTMENTS LIMITED									
T +44 20 7860 3074 F +44 20 7860 3174 www.hailhsbc.com									
HSBC ALTERNATIVE STRATEGY FUND									
Special Opp EUR OT OT GGY 11/21 EUR 127.09 4.0 7.1 12.1									
Special Opp Inst EUR OT OT GGY 03/31 EUR 88.51 0.7 -0.3 13.3									
Special Opp Inst USD OT OT GGY 03/28 USD 123.18 4.2 18.5 10.6									
Special Opp USD OT OT GGY 11/21 USD 134.27 4.0 7.1 12.1									
■ HSBC Portfolio Selection Fund									
GH Fund CHF Hdg OT OT GGY 11/21 CHF 129.25 3.1 4.9 7.5									
GH Fund EUR Hdg (Non-V) OT OT GGY 11/21 EUR 144.16 3.3 5.0 7.4									
GH Fund GBP Hdg OT OT GGY 11/21 GBP 159.80 3.7 5.5 8.0									
GH Fund Inst USD OT OT GGY 11/21 USD 138.20 4.0 5.9 8.2									
GH FUND S EUR OT OT CYM 11/21 EUR 162.08 4.5 6.5 8.6									
GH FUND S GBP OT OT CYM 11/21 GBP 170.05 4.7 6.7 8.9									
GH FUND S USD OT OT CYM 11/21 USD 190.47 4.5 6.5 8.7									
GH Fund USD OT OT GGY 11/21 USD 327.31 3.4 5.2 7.5									
Hedge Investments OT OT GGY 08/16 USD 158.48 NS NS 3.6									
Leverage GH USD OT OT GGY 11/21 USD 154.64 4.9 8.4 13.2									
MultiAdv Arb CHF Hdg OT OT JEY 11/21 CHF 103.37 3.4 3.8 4.0									
MultiAdv Arb EUR Hdg OT OT JEY 11/21 EUR 115.53 3.7 4.3 4.3									
MultiAdv Arb GBP Hdg OT OT JEY 11/21 GBP 126.21 4.0 4.5 4.7									
MultiAdv Arb S EUR OT OT JEY 11/21 EUR 131.36 4.6 5.3 5.5									
MultiAdv Arb S GBP OT OT JEY 11/21 GBP 139.04 4.7 5.4 5.8									
MultiAdv Arb S USD OT OT JEY 11/21 USD 150.05 4.4 5.1 5.5									
MultiAdv Arb USD OT OT JEY 11/21 USD 218.52 3.8 4.3 4.5									
■ HSBC Uni-folio									
Asian AdvantEdge EUR OT EQ JEY 06/30 EUR 91.36 -6.2 -4.5 2.5									
Asian AdvantEdge OT EQ JEY 06/30 USD 171.19 -6.2 -4.4 2.8									
Emerg AdvantEdge OT EQ JEY 09/28 USD 151.22 3.4 -2.4 -5.5									
Emerg AdvantEdge EUR OT EQ JEY 09/28 EUR 82.99 2.8 -3.0 -5.9									
Europ AdvantEdge EUR OT EQ JEY 06/30 EUR 127.84 -3.4 -1.3 2.2									
Europ AdvantEdge USD OT EQ JEY 06/30 USD 135.07 2.0 4.3 5.1									
Real AdvantEdge EUR OT OT JEY 04/30 EUR 104.69 1.3 -9.5 -1.9									
Real AdvantEdge USD OT OT JEY 04/30 USD 105.31 1.5 -8.8 -1.7									
Trading AdvantEdge OT OT GGY 11/21 USD 144.89 11.2 13.2 0.9									
Trading AdvantEdge EUR OT OT GGY 11/21 EUR 131.16 11.9 13.3 0.9									
Trading AdvantEdge GBP OT OT GGY 11/21 GBP 140.21 11.6 13.5 1.0									

NAV

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FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
■ HSBC Trinkaus Investment Managers SA									
E-Mail: funds@hsbctrinkaus.lu									
Telephone: 352- 47 18471									
HSBC Trinkaus Golden Opportunities OT OT LUX 12/04 USD 55.47 -20.7 -23.6 -34.9									
Prosperity Return Fund A JP BD LUX 12/06 JPY 8577.68 -9.3 -8.4 0.3									
Prosperity Return Fund B EU BA LUX 12/06 JPY 9032.12 4.6 11.0 13.2									
Prosperity Return Fund C EU BA LUX 12/06 USD 79.01 -12.2 -11.1 -1.0									
Prosperity Return Fund D EU BA LUX 12/06 EUR 121.37 -9.0 -8.8 8.1									
Renaissance High Grade Bd A EU BA LUX 12/06 JPY 10807.34 3.5 5.1 11.3									
Renaissance High Grade Bd B EU BA LUX 12/06 JPY 11130.39 17.9 25.6 23.9									
Renaissance High Grade Bd C EU BA LUX 12/06 USD 96.94 -0.9 0.7 8.4									
Renaissance High Grade Bd D EU BA LUX 12/06 EUR 102.83 -4.6 -4.1 6.9									
MP Asset Management Inc.									
www.mppam.si									
■ MP ASSET MANAGEMENT INC.									
Tel: + 386 1 587 47 77									
MP-BALKAN.SI EE EQ SVN 08/12 EUR 19.29 -1.9 -8.4 -10.9									
MP-TURKEY.SI OT OT SVN 12/04 EUR 47.60 31.4 15.7 1.1									
Meriden Group									
Wealth Management									
■ MERIDEN GROUP									
Tel: + 376 741 175 Fax: + 376 741 183 Email: meriden@meriden-ipm.com									
Antanta Combined Fund EE EQ AND 11/21 USD 192.41 -8.3 -7.4 -12.2									
Antanta MidCap Fund EE EQ AND 11/21 USD 288.43 -20.1 -16.8 -14.6									
Meriden Opps Fund GL OT AND 02/05 EUR 22.68 0.0 -11.2 -11.0									
Meriden Protective Div GL EQ AND 11/24 EUR NS.00 -2.8 NS NS									
■ POLAR CAPITAL PARTNERS LIMITED									
International Fund Managers (Ireland) Limited PH- 353 1670 660 Fax - 353 1670 1185									
Global Technology OT EQ IRL 12/04 USD 24.61 7.7 13.7 20.7									
Japan Fund USD JP EQ IRL 12/05 USD 20.68 -8.4 -7.1 10.5									
Polar Healthcare Class I USD OT EQ IRL 12/04 USD 36.35 28.2 34.1 41.7									
Polar Healthcare Class R USD OT EQ IRL 12/04 USD 35.46 27.4 33.3 41.0									
■ Hemisphere Management (Ireland) Limited									
Discovery USD A GL OT CYM 12/31 USD 101.35 NS NS NS									
Elbrus USD A OT OT CYM 10/31 USD 9.22 NS NS NS									
Europn Conviction USD B EU EQ CYM 10/31 USD 163.38 1.5 2.6 3.4									
Europn Forager USD B EU EQ CYM 10/31 USD 329.75 4.4 7.7 8.9									

NAV

—%RETURN—

FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
Latin America USD A GL EQ CYM 06/30 USD NS.00 NS NS NS									
Paragon Limited USD A EU EQ CYM 12/31 USD NS.00 12.7 12.7 14.2									
UK Fund USD A OT OT CYM 04/13 USD 157.94 1.8 NS NS NS									
■ PT CIPTADANA ASSET MANAGEMENT									
Tel: +6221 25574 883 Fax: +6221 25574 893 Website: www.ciptadana-asset.com									
Indonesian Grth Fund GL EQ BMU 12/03 USD 172.66 26.6 21.7 -3.2									
■ THE NATIONAL INVESTOR									
PO Box 47435, Abu Dhabi, UAE Web: www.tni.ae									
MENA Special Sits Fund OT OT BMU 10/30 USD 1074.82 -3.7 -3.2 1.4									
MENA UCITS Fund OT OT IRL 12/01 USD 1395.61 7.6 12.4 17.8									
UAE Blue Chip Fund OT OT ARE 12/01 AED 10.90 16.9 31.2 45.7									
■ OTHER FUNDS									
For information about these funds, please contact us on Tel: +44 (0) 20 842 9694/9633									
Medinvest Plc Dublin OT EQ IRL 09/30 USD NS.00 NS 1.3 -4.4									
■ WINTON CAPITAL MANAGEMENT LTD									
Tel: +44 (0) 20 7610 5350 Fax: +44 (0) 20 7610 5301									
Winton Evolution EUR CIs H GL OT CYM 10/31 EUR 1263.26 7.3 11.5 9.9									
Winton Evolution GBP CIs G GL OT CYM 10/31 GBP 1281.79 7.6 11.7 10.4									
Winton Evolution USD CIs F GL OT CYM 10/31 USD 1609.84 7.4 11.5 10.2									
Winton Futures EUR CIs C GL OT VGB 10/31 EUR 267.71 6.4 9.1 8.9									
Winton Futures GBP CIs D GL OT VGB 10/31 GBP 292.13 6.6 9.4 9.3									
Winton Futures JPY CIs E GL OT VGB 10/31 JPY 18728.98 6.4 9.2 9.3									
Winton Futures USD CIs B GL OT VGB 10/31 USD 955.41 6.4 9.2 9.2									

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MARKETS

Banks Push Back Against Big Deposits, Assess Fees

Continued from first page
financial system safer. But the move may inconvenience corporations that now have to pay new fees or look for alternatives to their bank.

Sal Sammartino, vice president of banking at Stewart Title, a unit of **Stewart Information Services Corp.**, a global title insurance company based in Houston, Texas, said he has had sleepless nights in recent weeks as he has negotiated with large banks to try to keep the firm's deposits there. He declined to name the banks.

"Ultimately my balances aren't as profitable for the banks, and that's going to impact my business," he said.

In an environment of slow economic growth with fewer opportunities to make loans and low interest rates, some banks feel they have too much money on deposit.

Some banks, including J.P. Morgan and **Bank of New York Mellon Corp.**, have also started charging institutional clients fees to hold euro deposits, mainly driven by the European Central Bank's move to make firms pay to park their cash with the ECB. BNY Mellon recently started charging 0.2% on euro deposits. **State Street Corp.** said on its third-quarter earnings call in October that it planned to begin charging fees later this year on euro deposits.

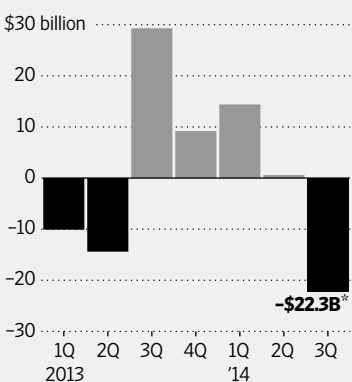
U.S. banking rules set to go into effect Jan. 1 compound the issue, especially for deposits that are viewed as less likely to stay at the bank through difficult times.

The new U.S. rules, designed to make bank balance sheets more resistant to the types of shocks that contributed to the 2008 financial crisis, will likely have little effect on retail deposits, insured up to \$250,000 by federal deposit insurance. But the rules do affect larger

Swallow the Money

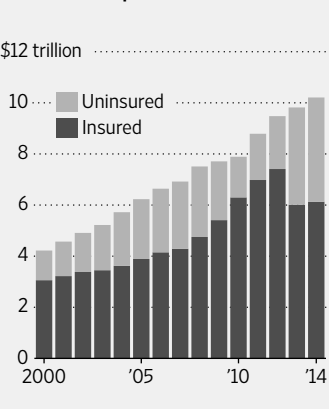
Banks, facing new rules that make some deposits less attractive, are pushing some large clients to move their deposits or pay a new fee.

Change in Bank of America total deposits from previous quarter



*BofA said \$15B of the deposit decline was driven in part by regulatory changes.
Sources: the company (quarterly deposits); FDIC (insured/uninsured)

Total bank deposits in U.S.



The Wall Street Journal

Because large, uninsured deposits would be expected to leave most quickly, the rule will now require that banks maintain reserves that they cannot use for profitable activities like making loans. That makes it much less efficient or profitable for banks to hold these deposits.

The new rules treat various types of deposits differently, based on how fast they are likely to be withdrawn. Insured deposits from retail customers are regarded as more safe and require that banks hold reserves equal to as little as 3% of the sums.

But the banks must hold reserves of as much as 40% against certain corporate deposits and as much as 100% of some big deposits from financial institutions such as hedge funds.

Some corporate officials said the new rules could make it more expensive for them to keep money

which clients can withdraw money at any time. The new charges will start Jan. 1 for U.S. accounts, according to an Oct. 21 memo reviewed by the Journal, and later for international accounts.

"New liquidity and capital requirements have changed the operating environment and increased the cost of doing business with financial institutions," the memo read.

The change affects some hedge-fund customers, rather than corporate accounts. The charges include items such as a \$500 monthly account-maintenance fee for demand deposits and a \$25 charge per paper statement.

Larger clients with broad, long-term relationships with their banks may get a break on the new fees, according to people familiar with the situation. Banks also are likely to differentiate between clients' operational deposits, used for things like payroll, and excess cash that can be pulled more easily, the people said.

At a National Association of Corporate Treasurers conference in October, consultant Treasury Strategies noted that the new rules "will redefine the economics and dynamics of corporate banking relationships."

Some argue that while it is a good policy on its face, the rule potentially magnifies problems in a recession by encouraging banks to hoard high-quality assets, potentially paralyzing markets for assets such as Treasury securities and some corporate bonds.

"This proposal, which is supposed to promote financial stability, actually does the opposite," said Thomas Quaadman, a vice president at the U.S. Chamber of Commerce.

Thomas Deas, treasurer at chemicals company **FMC Corp.** said dialogue is increasing between banks and corporate clients as company executives get their arms around the potential new fees.

Robert Marley, assistant treasurer at **EnerSys Inc.**, a maker of industrial batteries in Reading, Pa., said he was recently told by banks that his company would need to move cash that had been sitting in short-term deposit accounts in Europe or face new fees. "I'm not happy about it," he said.

J.P. Morgan's Dimon Says His Tests Show No Cancer

By EMILY GLAZER

J.P. Morgan Chase & Co.'s Chief Executive James Dimon told employees on Friday that tests have shown no evidence of cancer just three months after he finished scheduled treatment, according to a company memo included in a securities filing.

Mr. Dimon, who disclosed his diagnosis for throat cancer this summer, delivered the update to employees after undergoing a "thorough round of tests and scans" last week. The tests, which included a CT scan and a PET scan, are normally done around three months after scheduled treatment ends.

"The good news is that the results came back completely clear, showing no evidence of cancer in my body," Mr. Dimon said in the memo. "While the monitoring will continue for several years, the results are extremely positive and my prognosis remains excellent."

Mr. Dimon, who has run the nation's largest U.S. bank by assets since the mid 2000s, has been returning to a fuller schedule in recent weeks.

J.P. Morgan shares, already up in response to a positive jobs report on Friday morning, rose as much as nearly 50 cents in price after Mr. Dimon's latest health news was disclosed.

Mr. Dimon made his throat cancer diagnosis public in early July. He remained involved with the bank during his roughly eight weeks of treatment over the summer.

Mr. Dimon's memo was sent as he spoke at the bank's internal CEO conference in New York on Friday morning, the company said. The first question after his speech revolved around his health. The 58-year-old executive drew applause from about 150 bank CEOs and 50 other attendees after explaining his latest prognosis.

Mr. Dimon also shared his health update with members of the bank's operating committee on Thursday evening, a person familiar with the matter said.

In his memo, Mr. Dimon reminded employees to take care of their health first, and that "nothing is more important." Mr. Dimon has remained active in the business, beginning to travel again internationally in October, when he went to Mexico City to host a meeting with J.P. Morgan officials and guests, the company said. Following that, he spent about two weeks in Asia, including stops in Malaysia, Singapore and Thailand.

Though his travel timetable has resumed, Mr. Dimon has reduced his schedule to allow for more rest on the trips, the company added.



James Dimon, left, said cancer tests 'came back completely clear.'

Fund Scorecard

Equity Market Neutral

These funds invest in offsetting long and short positions in equity securities. The funds aim to avoid large market swings and provide absolute returns. Ranked on % total return (dividends reinvested) in Euros for one year ending December 05, 2014

Leading 10 Performers

FUND RATING	FUND NAME	FUND MGMT CO.	CURR. LEGAL BASE	YTD	% Return in \$US ** 1-YR	2-YR	5-YR
NS	Huabao Ningju creepers	Zhejiang Ningju Invest Management Ltd	CNYCHN	36.89	33.69	20.85	NS
NS	Guotai Junzhang Chongyang Alpha Hedge I	Shanghai Chongyang Investment Co., Ltd	CNYCHN	16.19	28.76	NS	NS
5	Amazon Market Neutral	Regal Funds Management	USDCYM	25.95	27.72	14.34	14.75
5	Fotic JuniorChina Alpha	JuniorChina Capital Management Co., Ltd.	CNYCHN	28.37	27.66	13.70	NS
3	Saemor Europe Alpha A	Saemor Capital B.V.	EURNLD	23.70	26.52	15.35	9.41
NS	Marshall Wace Mkt Neutral TOPS LP	Marshall Wace Asset Management Ltd	USDIRL	23.09	26.08	16.86	NS
1	Primevestfund	Primevest Capital Corp.	CADCAN	24.68	25.08	7.38	4.86
NS	Rotella Acrospire Global	Rotella Capital Management Inc	USDUSA	20.17	24.97	21.04	NS
4	Macquarie Asian Alpha Fund	Macquarie Funds Group	USDCYM	21.67	22.15	11.51	12.61
5	Parametrica Global Fund Ltd	Parametric Asset Management	USDCYM	21.25	21.06	24.10	17.64

NOTE: Changes in currency rates will affect performance and rankings.
KEY: ** 2YR and 5YR performance is annualized
NA-not available due to incomplete data
NS-fund not in existence for entire period

Source: Morningstar, Ltd
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New regulations make holding deposits less profitable. Bank officials are working with some clients to find different places to park cash.

deposits that often come from big corporations, smaller banks and big financial firms such as hedge funds.

Hundreds of companies and other bank customers with deposits that exceed the insurance limits could be affected by the banks' actions.

Overall, about \$4 trillion in deposits at banks in the U.S. were uninsured, covering more than 3.5 million accounts, according to Federal Deposit Insurance Corp. data.

The rule primarily responsible involves the liquidity coverage ratio, overseen by the Federal Reserve and other banking regulators.

The new measure, finalized in September, as well as some other recent global regulations, are designed to make banks safer by helping them manage sudden outflows of deposits in a crisis.

The banks are required to maintain enough high-quality assets that could be converted into cash during a crisis to cover a projected flight of deposits over 30 days.

in the bank or push them into riskier savings instruments such as short-term bond funds or uninsured money-market funds.

"You're going to see a lot of corporations that have had much simpler portfolios that are going to move toward more sophisticated portfolios," said Tory Hazard, president and chief operating officer of Institutional Cash Distributors, a broker to large clients looking for places to hold their cash.

Some bankers said they are advising corporate clients to break up large deposits across several banks, including smaller ones not affected by all of the new rules. Others might be attracted to other products offered by banks or products being created by asset managers.

Some customers are negotiating for a reduction in the fees, said people familiar with the discussions.

J.P. Morgan told some clients of its commercial bank recently that it would begin charging monthly fees on deposit accounts from

BLUE CHIPS & BONDS

Major players & benchmarks

Stoxx Europe 50: Friday's best and worst...

Company	Country	Industry	Volume	Previous close, in local currency	STOCK PERFORMANCE			
					Previous session		YTD	52-week
BNP Paribas	France	Banks	5,813,349	51.92		4.12%	-8.3%	0.1%
Deutsche Bank	Germany	Banks	8,824,725	26.85		3.65	-22.6	-20.4
Telefonica S.A.	Spain	Fixed Line Telecommunications	20,649,519	13.37		3.64	141	17.3
Daimler	Germany	Automobiles	4,743,842	70.00		3.60	11.3	20.1
Banco Bilbao Vizcaya Argn	Spain	Banks	34,296,388	8.66		3.49	-1.3	5.7
BHP Billiton	United Kingdom	General Mining	9,756,926	1.474	-1.73%		-211	-18.8
BG Grp	United Kingdom	Integrated Oil & Gas	9,527,377	907.50	-1.70		-30.1	-25.1
Rio Tinto	United Kingdom	General Mining	4,565,726	2.898	-1.21		-15.0	-11.3
Glencore PLC	United Kingdom	General Mining	21,176,781	316.50	-1.00		12	3.6
BP PLC	United Kingdom	Integrated Oil & Gas	31,309,522	424.50	-0.56		-13.0	-10.7

...And the rest of Europe's blue chips

Company/Country (Industry)	Volume	Latest, in local currency	STOCK PERFORMANCE		
			Latest	YTD	52-week
ING Groep Netherlands (Banks)	22,797,171	11.74	3.48%	16.2%	28.7%
Bayer Germany (Specialty Chemicals)	2,160,177	120.95	3.42	18.6	26.9
Banco Santander S.A. Spain (Banks)	49,217,878	7.38	3.36	18.0	23.9
Vodafone Group United Kingdom (Mobile Telecommunications)	85,661,465	230.60	3.11	-6.0	-1.4
Anheuser-Busch InBev Belgium (Brewers)	2,067,196	94.25	3.01	22.0	28.2
Deutsche Telekom Germany (Mobile Telecommunications)	12,458,555	13.71	2.81	11.4	22.0
Bardclays United Kingdom (Banks)	39,775,845	249.45	2.80	-8.3	-4.9
AXA France (Full Line Insurance)	9,098,560	19.72	2.71	-2.4	8.4
SAP Germany (Software)	3,324,201	56.94	2.43	-8.6	-4.1
Unilever CVA Netherlands (Food Products)	5,528,024	33.49	2.42	14.4	17.6
HSBC Hldgs United Kingdom (Banks)	28,979,485	643.10	2.40	-2.9	-2.0
Moët Hennessy Louis Vuitt France (Clothing & Accessories)	970,959	145.75	2.35	9.9	11.0
BT Group PLC United Kingdom (Fixed Line Telecommunications)	17,708,249	420.00	2.07	10.7	15.2
Siemens Germany (Diversified Industrials)	2,841,971	94.39	1.98	-4.9	1.1
BASF Germany (Commodity Chemicals)	3,131,822	74.30	1.95	-4.1	-0.9
L'Air Liquide France (Commodity Chemicals)	852,214	102.30	1.84	-0.5	3.6
Unilever United Kingdom (Food Products)	2,166,110	2,729	1.83	10.0	12.2
Diageo United Kingdom (Distillers & Vintners)	3,283,962	1,971	1.81	-1.5	3.3
Lloyds Banking Group PLC United Kingdom (Banks)	108,744,607	80.89	1.66	2.5	4.8
Credit Suisse Group AG Switzerland (Banks)	4,558,348	26.26	1.63	-3.7	0.6

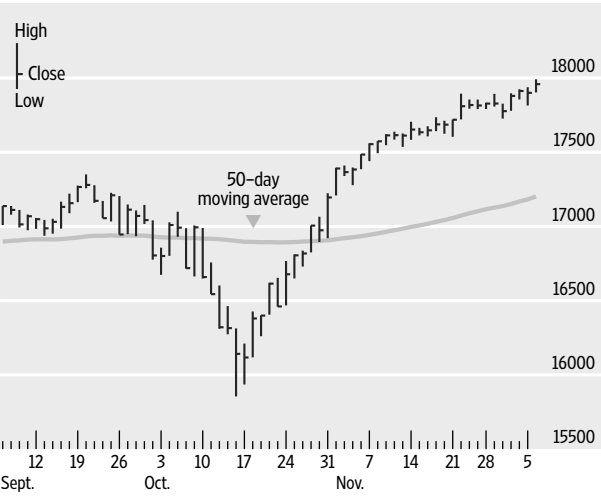
Company/Country (Industry)	Volume	Latest, in local currency	STOCK PERFORMANCE		
			Latest	YTD	52-week
Total France (Integrated Oil & Gas)	8,313,383	45.19	1.53%	1.5%	6.2%
Prudential United Kingdom (Life Insurance)	2,847,443	1,551	1.44	15.7	23.9
Allianz SE Germany (Full Line Insurance)	1,527,067	138.85	1.42	6.5	12.3
Novartis AG Switzerland (Pharmaceuticals)	3,242,377	93.80	1.41	31.7	33.7
Reckitt Benckiser Grp United Kingdom (Nondurable Household Products)	1,063,729	5,255	1.35	9.6	8.7
Financiere Richemont Switzerland (Clothing & Accessories)	1,079,337	91.75	1.33	3.3	4.7
ENI Italy (Integrated Oil & Gas)	21,968,674	15.50	1.24	-11.4	-8.3
UBS Group Switzerland (Banks)	7,366,989	17.73	1.20	2.2	6.6
Roche Holding Part. Cert. Switzerland (Pharmaceuticals)	992,899	294.60	1.06	18.2	20.2
AstraZeneca United Kingdom (Pharmaceuticals)	1,617,695	4,740	0.86	32.6	36.6
Sanofi SA France (Pharmaceuticals)	4,364,144	76.14	0.85	-1.3	2.7
Zurich Insurance Group Switzerland (Full Line Insurance)	458,286	307.20	0.69	18.8	24.3
GlaxoSmithKline United Kingdom (Pharmaceuticals)	6,558,927	1,471	0.65	-8.7	-7.9
Nestle Switzerland (Food Products)	4,125,231	72.50	0.55	11.0	12.4
Standard Chartered United Kingdom (Banks)	4,394,777	973.00	0.51	-28.5	-26.5
British American Tobacco United Kingdom (Tobacco)	2,308,817	3,745	0.39	15.6	17.1
National Grid United Kingdom (Multiutilities)	6,739,827	930.00	0.27	18.0	24.7
Schneider Electric SE France (Electrical Components & Equipment)	2,925,580	63.54	0.21	0.2	9.8
Royal Dutch Shell A United Kingdom (Integrated Oil & Gas)	5,751,318	2,149	-0.05	-0.6	6.7
ABB Switzerland (Industrial Machinery)	7,083,549	21.28	-0.05	-9.4	-5.3

Sources: SIX Financial Information

Dow Jones Industrial Average

P/E: 17

LAST: 17958.79 ▲ 58.69, or 0.33%
YEAR TO DATE: ▲ 1,382.13, or 8.3%
OVER 52 WEEKS ▲ 1,938.59, or 12.1%



Note: Price-to-earnings ratios are for trailing 12 months

DJIA component stocks

Stock	Symbol	Volume, in millions	Latest	CHANGE	
				Points	Percentage
AT&T	T	18.6	\$33.94	0.03	0.09%
AmExpress	AXP	2.8	92.65	0.82	0.89
Boeing	BA	2.5	132.21	0.89	0.68
Caterpillar	CAT	3.6	98.78	-0.89	-0.89
Chevron	CVX	7.5	110.87	-1.41	-1.26
CiscoSys	CSCO	26.4	27.50	-0.27	-0.97
CocaCola	KO	12.3	43.53	0.03	0.07
Disney	DIS	5.1	93.76	0.53	0.57
DuPont	DD	3.3	73.07	0.70	0.97
ExxonMobil	XOM	11.2	93.82	-0.55	-0.58
GenElec	GE	21.8	26.01	-0.08	-0.31
GoldmanSachs	GS	3.6	195.45	3.50	1.82
HomeDpt	HD	4.6	99.64	0.69	0.70
Intel	INTC	20.1	37.67	0.21	0.56
IBM	IBM	3.0	163.27	-0.78	-0.48
JPMorgChas	JPM	19.7	62.70	1.32	2.15
JohnsJohns	JNJ	6.3	108.51	0.95	0.88
McDonalds	MCD	6.1	96.31	0.65	0.68
Merck	MRK	10.9	61.49	0.57	0.94
Microsoft	MSFT	25.5	48.42	-0.42	-0.86
Nike B	NKE	1.7	99.33	0.28	0.28
Pfizer	PFE	24.2	31.99	0.32	1.01
ProctGamb	PG	6.2	90.38	-0.20	-0.22
3M	MMM	1.7	162.27	0.01	0.01
TravelersCos	TRV	1.7	105.20	0.10	0.10
UnitedTech	UTX	3.0	111.29	0.08	0.07
UtdHlthGp	UNH	3.0	100.33	0.66	0.66
Verizon	VZ	15.2	48.61	-0.17	-0.35
VISA CIA	V	1.8	263.35	2.21	0.85
WalMart	WMT	6.4	84.12	-0.64	-0.76

Source: WSJ Market Data Group

Tracking credit markets & dealmakers

Credit derivatives

Spreads on credit derivatives are one way the market rates creditworthiness. Regions that are trading in rough waters can see spreads swing toward the maximum—and vice versa. Indexes below are for five-year swaps.

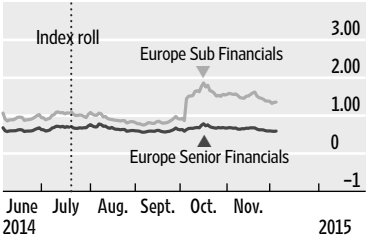
Markit iTraxx Indexes

Index: series/version	Mid-spread, in pct. pts.	Mid-price	Coupon	SPREAD RANGE, in pct. pts. since most recent roll		
				Maximum	Minimum	Average
Europe: 22/1	0.58	102.08%	0.01%	0.78	0.57	0.65
Eur. High Volatility: 20/1	0.61	101.58	0.01	0.84	0.61	0.71
Europe Crossover: 22/1	3.20	107.98	0.05	4.05	3.18	3.52
Asia ex-Japan IG: 22/1	1.01	99.95	0.01	1.28	1.01	1.10
Japan: 22/1	0.62	101.91	0.01	0.79	0.59	0.67

Note: Data as of December 4
In percentage points

Spreads

Spreads on five-year swaps for corporate debt, based on Markit iTraxx indexes.



Source: Markit Group

Credit-default swaps: European companies

At its most basic, the pricing of credit-default swaps measures how much a buyer has to pay to purchase-and how much a seller demands to sell-protection from default on an issuer's debt. The snapshot below gives a sense which way the market was moving yesterday.

Showing the biggest improvement...

	Yesterday	CHANGE, in basis points		
		Yesterday	Five-day	28-day
WENDEL	65	-7	-15	-40
MELIA HOTELS Intl	231	-20	-43	-127
Stena Aktiebolag	519	-31	27	120
Vivendi	42	-2	-23	-25
LLOYDS BK	47	-3	-5	-12
Royal Bk of Scotland	54	-3	-7	-13
Std Chartered	81	-4	-2	-9
Wolters Kluwer NV	43	-2	-4	-8
Barclays Bk	50	-2	-4	-12
Bco Comercial Portugues	238	-8	-5	-18

And the most deterioration

	Yesterday	CHANGE, in basis points		
		Yesterday	Five-day	28-day
Legal Gen Gp	50	3	1	-5
VIRGIN MEDIA Fin	176	8	-5	-39
UPC Hldg	201	7	-9	-31
Vedanta Res	468	16	51	81
Unitymedia KabelBW	171	4	-3	-34
Allianz	30	1	-1	-4
Wind Acquisition Fin	384	4	12	-55
Robert Bosch	54	1	-1	-2
Prudential	63	1	-2	-5
Akzo Nobel	59	1	-1	-7

Source: Markit Group

Behind Europe's deals: Bank revenue rankings, Global (ex US)

Behind every IPO, bond offering, merger deal or syndicated loan is one or more investment banks. Here are investment banks ranked by year-to-date revenues from recent deals.

	Revenue, in millions	share	PERCENTAGE OF TOTAL REVENUE			
			Equity capital markets	Debt capital markets	Mergers & acquisitions	Loans
Deutsche Bank	\$2,226	5.5%	26%	33%	22%	19%
JPMorgan	2,225	5.5	31	30	25	13
Goldman Sachs	2,170	5.4	35	25	33	7
Morgan Stanley	1,926	4.8	43	24	26	7
Citi	1,764	4.4	28	34	26	13
Bank of America Merrill Lynch	1,638	4.1	27	31	29	13
Credit Suisse	1,627	4.0	33	29	27	11
HSBC	1,271	3.2	19	50	8	23
UBS	1,260	3.1	43	27	25	6

Source: Dealogic

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Also, receive emails that summarize the day's trading in Europe and Asia. To sign up, go to [WSJ.com/Email](#).

PERSONAL JOURNAL



GOING LOCAL In London and New York, wealthy buyers of upscale homes may face higher taxes. Real-estate experts are debating the impact on sales in affluent neighborhoods, such as St. James's in London and New York's Upper East Side, below.

The Global 'Mansion Tax' Morass

As New York, London and other major cities consider new taxes on wealthy home buyers, experts debate how levies impact the real-estate market

BY ELIOT BROWN AND ART PATNAUDE

Luxury-home prices in 33 major cities around the world—from Los Angeles to Monaco—are up 36% since 2009, according to data from real-estate firm Knight Frank.

The taxman has noticed.

To bolster public coffers or to curb rampant growth, a number of cities, including Singapore, Hong Kong and San Francisco, have imposed or increased taxes on wealthy home buyers in recent years. In other major cities, such as New York, London and Paris, new taxes on high-end homes and second homes are on the table.

Economists and real estate professionals are studying the effect of so-called mansion taxes on the property market, and so far their findings are mixed. Hong Kong, for example, levied a tax on foreign investors in 2012 and increased a transfer tax on expensive homes in 2013. Since then, transaction volume has fallen to about 8,000 home sales a month from more than 12,000 in 2011, according to research firm Colliers International. But home prices have proven resilient. While they initially fell about 5%, they have bounced back to record levels.

Taxing the rich via their property is hardly a new concept. In 17th-century England, King William III taxed property owners based on the number of windows in their houses, since the wealthy tended to have larger homes with more windows. The market reacted: To avoid the tax, builders



(Top to bottom) European Pressphoto Agency; iStock

included fewer and fewer windows—and some houses had rooms without windows at all, according to a paper published in April by the Lincoln Institute of Land Policy.

In the modern era, such taxes have been relatively infrequent, with governments preferring annual taxes based on assessed value. In Germany and Finland, for example, wealth taxes were largely abandoned in the past two decades.

In implementing a mansion tax, the methods vary, as do the rationales. Both Hong Kong and Singapore increased taxes on foreign investors buying property to intentionally deflate prices in a

real estate bubble created by a flood of purchases by Chinese investors.

In the U.K., a proposed mansion tax stands to be a focal point of the national election in May. The Labour Party, vying for power against the current Conservative-led coalition government, has vowed to introduce a levy on homes worth above £2 million, or about \$3.1 million, in an appeal to working-class voters.

Many high-end brokers and would-be buyers say that the tax would stifle the market. Notably, Angelina Jolie, visiting to promote a new film last month, said in a televised interview that a mansion tax could affect her decision-mak-

ing. "I'm quite reasonable about money," Ms. Jolie said. "That could put me off."

Critics say the mansion tax would have the greatest impact on buyers within the U.K. "For ultrahigh net worth individuals who can buy anywhere in the world, it's not going to stop them," said Shirley Humphrey, director at Harrods Estates, the estate-agency arm of the luxury department store in London. "It would have more of an effect on the local U.K. market. For instance, it could stop people from moving up to that next property on the ladder," she said.

Economists, meanwhile, generally believe such taxes are a blunt instrument and say that similar goals can be achieved by income taxes or increasing property taxes.

Wojciech Kopczuk, an economist at New York's Columbia University who has studied mansion taxes, said the transfer taxes that have been proposed and implemented are "distortive," causing some sellers to rethink a sale at all and thus slowing down the market. "Transaction taxes stop people from trading," he said.

Still, Mr. Kopczuk said, depending on the motivations of those implementing the tax, such measures tend to be effective in redistributing some wealth given that many rich homeowners often live and pay taxes elsewhere. "If I want to give them credit for the point of view of economics," he said, "these are people that you cannot otherwise tax with other forms of taxation."

Added Expenses

Current taxes and efforts under consideration in major cities:

■ NEW YORK

Existing: A transfer tax of 1% on sales over \$1 million. Foreign buyers who sell a property are subject to federal real-estate withholding taxes of 10% of sale price.

Under consideration: Multiple proposals, including one to raise the mansion tax and one that would institute a new tax on second homes.

■ LONDON

Existing: A transfer tax, called a stamp duty land tax, that uses a sliding scale that charges nothing for the portion of a home purchase up to £125,000, and rises in steps to 12% on the portion of sales over £1.5 million, or about \$2.35 million. Some foreign property buyers also pay an additional annual property tax.

Under consideration: A proposal to increase annual taxes on homes valued above £2 million, or about \$3.1 million.

■ SINGAPORE

Existing: Foreign buyers pay a transfer tax of 15%.

■ HONG KONG

Existing: Transfer tax as high as 8.5% on properties over \$20 million Hong Kong dollars, or about \$2.6 million in U.S. dollars. Foreign buyers pay a transfer tax of 15%.

■ SAN FRANCISCO

Existing: Transfer-tax ranging from 0.75% of home sales starting at \$1 million, to 2.5% of sales over \$10 million.

■ PARIS

Under consideration: Increased annual tax imposed on some second homes.

BOOKS

Turning Back the Tide

Operation Sea Lion
By Leo McKinstry
John Murray, 392 pages, £25

By JACK SCHWARTZ

“The triumph of the Few has become central to Britain’s romantic wartime story,” writes Leo McKinstry, referring to the legendary courage and daring of the RAF pilots who repelled the Luftwaffe’s onslaught over England in 1940, thereby thwarting a Nazi invasion. It is the thesis of “Operation Sea Lion” that while the RAF’s heroism was essential, it is not the whole story. Churchill’s ringing rhetoric notwithstanding, Mr. McKinstry argues that the victory over Hitler was, in fact, a triumph of the Many.

In the popular imagination, in the summer of 1940, Britain was ill-prepared to deal with “Sea Lion,” Hitler’s code name for the invasion of England, planned for that September. The British Expeditionary Force had been badly mauled by the Germans in France, a defeated and demoralized army evacuated from Dunkirk. England’s Local Defence Volunteers, training with broomsticks instead of rifles, were hardly a match for Hitler’s Wehrmacht. In the air, there seemed little doubt that the formidable Luftwaffe was capable of achieving the dominance that would secure an invasion. All that stood between England and conquest was the RAF.

Mr. McKinstry, however, maintains that it was England that held growing advantages. First and foremost was Winston Churchill, who arrived as prime minister in May 1940, the one man who could save Britain at the moment of its greatest peril. With the fall of France the following month and Hitler’s forces at their apogee, Churchill faced down Lord Halifax and the appeasers at home who wished to capitulate, while also turning Dunkirk, where 336,000 men were evacuated, from a debacle into a triumph. In so doing, he not only saved the British army to fight another day but rallied England to engage in what became a people’s war.

German invaders would have found the English countryside bristling with pillboxes, machine-gun nests and tank traps.

Yet, as Churchill observed, it was the nation “that had the lion’s heart. I had the luck to be called upon to give the roar.” “Operation Sea Lion” provides a dramatic chronicle of how the English people responded heroically to that roar. To be sure, the tale has been told before. But Mr. McKinstry, who has written on the Spitfire and the Hurricane, the storied aircraft in the RAF’s campaign, uses his familiarity with the terrain to extract new wine from old battles. He wisely limits his focus to the home front—a last line of defense in the dark days of 1940, when England, alone, stood at the brink.

In fact, the title is somewhat misleading, because the bulk of the book actually focuses on British efforts to thwart Sea Lion; it begins even before German inva-



UNTO THE BEACH Soldiers on England’s south coast, Sept. 2, 1940.

sion plans get under way, as England is marshaling its entire population to defend the island fortress. The force derided as “Dad’s Army,” an amateur collection of volunteers—a gibe that may have borne some truth in May 1940—was within three months transformed into an effective fighting auxiliary of 1.3 million men, well trained, well armed and resolute. Had the Germans landed, they would have found the countryside bristling with pillboxes, machine-gun nests, trenches and tank traps. The shores were seeded with mines and protected by heavy coastal batteries.

These measures were intensified when the British went from relying on “stops” in a static defense to an aggressive mobile strategy using the revitalized 1.7 million-strong regular army to attack and engage invaders. From the French defeat, England had absorbed the failure of static warfare and was never going to be caught behind another Maginot Line. It had also learned the lessons of the Low Countries and Norway, which had proved vulnerable to airborne assault. The British coast was riddled with anti-landing devices such as steel poles, upright girders and metal arches straddling roads to prevent aircraft from alighting. The element of surprise, so critical in the Wehrmacht’s victories on the Continent, was neutralized.

And, as time wore on, British confidence grew. Although the menace seemed grave, the clock was ticking against Germany. In the months between May and Sep-

tember 1940, the British army had been reconstituted into a strong and determined force. American arms and equipment began pouring in despite the menace of German subs. British industry outpaced the Germans in producing aircraft and myriad other weapons. A powerful British navy dominated the English Channel and patrolled the sea lanes beyond. And the fall of France actually liberated the British from what many considered to be a liability. Now England was fighting at home without the burden of a defeatist ally.

The Germans, meanwhile, had to launch an invasion by mid-September, since poor weather in the Channel after the latter part of the month could impede a landing. By the time the Nazis decided to activate Sea Lion in mid-July, they had only two months to bring off an invasion. It took two years for the Allies to implement the Normandy landings, and on D-Day they had control of the air and the Channel. The Kriegsmarine, by contrast, was outnumbered by a powerful Royal Navy that would have provided a formidable obstacle, even with the Luftwaffe’s support.

No wonder Adm. Erich Raeder, chief of the German navy, was lukewarm about the project. Assembling the armada of landing craft needed for this venture and protecting it against such staunch opposition provided a daunting challenge. Another skeptic was Reich Marshal Hermann Goering, who believed that his own Luftwaffe could bring England to its knees without need of an invasion.

It was only the army, led by enthusiasts such as Franz Halder, chief of the general staff, who believed that once the Kriegsmarine supplied the transport, the Wehrmacht would make short work of a weak British army and an ineffectual Home Guard. The discord among Germany’s three armed branches led to confusion and delay in forging a unified invasion plan.

And there was one more skeptic: Adolf Hitler. Usually bullish about aggression, the Führer had reservations when it came to invading England. In some ways, Hitler viewed the war as a chess match. After the French surrender in June, the British were in checkmate. An invasion wasn’t necessary since the game was up. He would offer them terms, and they would capitulate. Hitler didn’t understand Churchill’s stubborn refusal to admit that he had been beaten, ascribing it to English pig-headedness. It was only when, in early July, Churchill ordered the Royal Navy to sink the Vichy French fleet in Algerian waters near Oran, rather than allow it to fall into Axis hands, that Hitler realized that the British meant to fight on and that England would have to be conquered promptly if he was to avoid a two-front war, given his plans to attack the Soviet Union the following year.

There was perhaps another reason that the Führer hesitated. Hitler was a bully who sensed that he could overrun Western Europe and Poland through military might as well as a sense of defeatism, despair and fatalism in his vic-

tims. But England was different. The British were growing stronger by the day and showed a fierce will to resist German conquest. Should the invasion fail—as it very well might—the myth of Nazi invincibility would be shattered. The result was an enterprise at cross-purposes: The now galvanized German military executed herculean feats of logistics to meet impossible deadlines, while the High Command kept postponing S-Day to later in September, and the normally decisive Führer continued to vacillate. In the end, it was the failure of the Luftwaffe to gain control of the air by mid-September that put the kibosh on “Sea Lion.” The moment had passed.

If the story of embattled England in the summer of 1940 is a tale oft-told, it is, in this case, a tale well-told. As those epic days fade from memory, a single volume that evokes the valiant struggle of the British people through the prism of the Home Front is a welcome addition. Mr. McKinstry brings some fresh material for the specialist, but, more important, his ability to capture the resilience, stoicism and courage of the British people through a deft balance of narrative and detail is what makes this book engaging for any reader. And who can fail to thrill yet again to Churchill’s resolute call to arms in what was surely England’s finest hour?

—Mr. Schwartz formerly supervised the book pages of *Newsday* and was an editor in the culture section of the *New York Times*.

BOOKS

Keeping Pace With History

Walking the Woods and the Water
By Nick Hunt
Nicholas Brealey, 330 pages, £11.99

By DOMINIC GREEN

In the winter of 1933, 18-year-old Patrick Leigh Fermor set out on foot from London for Constantinople. Traveling “like a tramp, a pilgrim or a wandering scholar,” with a notebook and a volume of Horace in his rucksack, he hoped to catch Europe’s castles and peasants before they faded away entirely. “Everything is going to vanish!” cries a morbid Austrian to Leigh Fermor along the way. “They talk of building power-dams across the Danube. . . . They’ll make the wildest river in Europe as tame as a municipal waterworks. All those fish from the East—they would never come back. Never, never, never!” But neither man could foresee that a greater erasure was imminent.

Decades later, “Paddy” Leigh Fermor wrote two books about his epic walk and the “part-remembered, part-fabulated landscape” of his lost youth and interwar Europe. “A Time of Gifts” (1977) and “Between the Woods and the Water” (1986) are elegant, elegiac and among the best travelogues of the 20th century.

Nearly 80 years after Leigh Fermor made his trek, another intrepid young Englishman, Nick Hunt, has repeated the same trudge. For seven months and more than 4,000 kilometers, Mr. Hunt pursued Leigh Fermor’s erratic diagonal down the Rhine and Danube, transecting Europe from the Dutch coast to the Black Sea.

Retracing a legendary journey is the literary equivalent of method acting. The friction between inspiration and emulation generates heat, if not light. With “Walking the Woods and the Water,” Mr. Hunt has created an illuminating addition to what the travel writer Robert Macfarlane calls “the literature of the leg.”

Mr. Hunt is pedestrian only in his footsore method. Like Leigh Fermor, he walks in an alarming “time of col-

lapse.” It is 2011. The euro is faltering, xenophobia toward Arab and North African immigrants is rising, and Europe seethes in debt and resentment. “I want to see how things have changed,” he puts it to an anarcho-hippie at an Occupy camp in Holland. “Has all the mystery and wildness gone? What has Europe lost in the last eight decades?”

From the Atlantic to the Ruhr, Mr. Hunt wanders a “nowhere space”: a noisy mesh of suburbs, warehouses and factories, sliced by motorways and hostile to pedestrians. Walking to his first objective, Rotterdam, Mr. Hunt heads for a church spire. It turns out to be the minaret of a mosque. Burnt by the Luftwaffe, rebuilt by the welfare state and repopulated by immigrants, Leigh Fermor’s

Walking toward Rotterdam, Hunt heads for a church spire. It turns out to be the minaret of a mosque.

Rotterdam survives only in name. At Worms, the Nibelungring has no Wagnerian dwarves and treasure: The name is a municipal pun, for the ring road around the city. By the Rhine, Mr. Hunt sleeps rough in “cracks in the landscape,” burrowing into shattered castle walls.

Then, halfway across Germany, Mr. Hunt detects Leigh Fermor’s world. The beer still foams at the Red Ox in Heidelberg, where Leigh Fermor met his first Nazi, a “lint-haired” youth with schnapps on his breath and Jews on his mind. Today, the inn is identical, still jammed with heraldic and hunting trophies. Sleeping in Leigh Fermor’s old room, Mr. Hunt, awaiting “some echo from the past,” receives news that his grandfather, a man of Leigh Fermor’s generation, has died.

Exhilaration and terror still await the wanderer in the snowy woods of Bavaria. “The world is muffled in

white,” Leigh Fermor wrote, “motor-roads and telegraph poles vanish, a few castles appear in the middle distance, everything slips back a couple of hundred years.” The only sounds that Mr. Hunt hears are the chopping of “far-off axes” and the “shuddering reverberations of woodpeckers.” As Leigh Fermor staggered at dusk into peasants’ huts, so Mr. Hunt reels frozen into kebab shops and mountain cottages.

In Austria, Mr. Hunt sleeps poorly in quaint Mauthausen, its pleasant villagers seemingly untroubled by the atrocities perpetrated in the nearby concentration camp. But beyond the old Iron Curtain, the people become more hospitable, the dogs more hostile and history more palpable. The Iron Gates of the Danube, once rocky battlements against Ottoman invaders, are now a lake, their rapids dammed for hydroelectric power. The Romanian salmon are denied their spawning grounds above Ada Kaleh, the drowned island where Leigh Fermor saw his first Turks. Now, monster catfish patrol the waters among the bones of Romanians who, fleeing Cold War, swam for the milder coast of Yugoslavia only to be shot by border guards.

Since 1989, the past—pristine or rotten—has floated to the surface. The peasant costumes may be gone, but the antagonisms endure. No one confuses a Slovenian with a Slovakian. The Hungarians still drink *palenky* (plum brandy) for breakfast, then itch the “severed limb” of Transylvania, lost to Romania in 1920. Nobody talks about the Jews. And everyone still hates the Gypsies.

Descending the wild mountains of Bulgaria, Mr. Hunt finds the Turkish villagers and Karakatsani nomads vanished. The Black Sea coast is a concrete dystopia of all-day breakfasts and all-night techno. One night, Leigh Fermor nearly drowned here among the rocks, then caroused in a cave with Bulgarian shepherds and Greek fishermen. The shepherds and the fisherman are long gone, but Mr. Hunt controls his nostalgia and



GREEN DANUBE The Liberty Bridge, Budapest.

mostly avoids mimicking Leigh Fermor’s flamboyant style. Still, his inspiration rubs off, like the skin on Mr. Hunt’s feet. Camping by a river in Hungary, Mr. Hunt swats mosquitoes at sunset: “The Körös turned molten at dusk, a murky golden soup lit with magnesium-bright flecks from the dying sun. Clumps of twigs floated past like knots of hair.”

Leigh Fermor was a champion charmer—Somerset Maugham dismissively called him “a middle class gigolo for upper class women”—and his path eastward was gilded with parties, picnics and bicycle polo on the lawn. (The communists killed or exiled the aristocrats who feted him.) Mr. Hunt is not similarly celebrated. In Romania, the author meets the great-granddaughter of one of Leigh Fermor’s friends, who shows Mr. Hunt the family seat, now a dilapidated mental hospital. Her family has reclaimed the house but cannot afford its renovation. They lease it back to the state, and retain a guest room where, as Mr. Hunt puts it, travelers sleep in the “post-aristocratic world” and awake into

the nightmare of history.

Yet as Mr. Hunt advances, he sloughs off Leigh Fermor’s shadow. Tenderly, he kicks his copy of “A Time of Gifts” into the Austrian Danube. “Between the Woods and the Water” takes the plunge at the Iron Gates.

Leigh Fermor never completed his long-gestating third and final volume about his trek, though an edited version, “The Broken Road,” appeared after Mr. Hunt’s walk. Thus, on the last third of the journey from Bulgaria to the Golden Horn, we encounter Mr. Hunt without Leigh Fermor’s guiding ghost.

Bearded and filthy, his boot soles flapping, Mr. Hunt staggers through Istanbul, a megacity of 14 million. The Islamists are erasing what’s left of Atatürk’s secularism; the new minarets resemble “telecommunications infrastructure.” President Erdogan’s convoy roars past and Mr. Hunt reaches his journey’s end: “There was nothing left of Europe,” he writes.

—Mr. Green is the author of “The Double Life of Dr. Lopez” and “Three Empires on the Nile.”

Manet Paints Monet
By Willibald Sauerländer
Getty, 79 pages, £16.95

By JONATHAN LOPEZ

Irritated that newspapers were mistaking him for the younger artist, French painter Edouard Manet (1832-1883)—reigning star of the Parisian avant-garde during the 1860s and 1870s—initially had little use for his near-homonymic doppelgänger Claude Monet (1840-1926). But after meeting the man and finding him a

Monet and Manet learned from each other during a summer spent painting along the Seine.

talent of genuine originality, Manet warmed up. As the distinguished German art historian Willibald Sauerländer recounts in “Manet Paints Monet”—a compact volume of sparkling insight and charm—the two artists and their families spent the summer of 1874 together in the riverside town of Argenteuil, just north of Paris, and there embarked on a sto-

ried adventure of artistic discovery.

Manet and Monet were equally modern in style, but they went about the business of modernism by disparate methods. Both painters emphatically rejected the classical subject matter favored by the French Royal Academy of Painting and Sculpture—whose annual exhibition, the Salon, was the leading venue for contemporary painting and sculpture at that time. Manet brought a novelistic awareness of interpersonal disquietude to his scenes of contemporary life—as in, for instance, his scandalous “Olympia” (1863), which recasts the conventional mythological nude as an unashamedly naked courtesan. Monet, by contrast, was primarily a painter of natural phenomena, a keen formalist innovator who recorded his impressions of perceived reality in dazzling compositions of seemingly dematerialized color.

At Argenteuil, Manet painted scenes dominated by the play of light on water, working outdoors in a rowboat outfitted with a covered cabin at one end for shelter and a broad canopy for shade. Fascinated by the curious spectacle of this floating atelier, the lifelong city-dweller Manet proceeded to paint a portrait of Monet toiling at his craft in the blazing sun: The straw-hatted landscape painter sits, legs out-

Oil and Water



MEMENTO 'Monet Painting in His Studio' (1874), by Edouard Manet.

stretched, before his easel at the boat’s prow, while his wife, Camille, quizzically assesses his efforts from the relative comfort of the cabin.

“To be able to give an adequate representation of Monet in his atelier boat,” Mr. Sauerländer tells us, “Manet paints like Monet.” The more established artist not only adopts the younger man’s methods by painting outside, or *en plein air*, but gamely tries out the short,

sketchy brushstrokes and vibrant chromatic harmonies for which Monet and his Impressionist colleagues were becoming famous. Camille’s facial expression is evoked with just a few calligraphic traces of paint, and the vivid contrast of the bright blue water and pale pink canopy sets off the white highlights of the sitters’ linen garments to brilliant effect.

This was not just a fleeting experiment for Manet but a veritable

Damascene conversion. During the course of the summer, he produced a string of minor masterpieces in which he grafted Monet’s Impressionist technique to his own sociological preoccupation with *la vie moderne*. In “Argenteuil” (1874), for instance, Manet portrays a vacationing Parisian businessman and a young woman of lower social class chatting beside pleasure boats on the sunny docks in a scene subtly suggestive of dalliance. Here we witness, as Mr. Sauerländer puts it, “the transformation of the Impressionist representation of landscape and water into an Impressionist depiction of contemporary society.” Manet continued to work out the consequences of this epiphany for the remainder of his career, returning to his customary urban subject matter with a newfound understanding of pure bright color in such iconic works as “A Bar at the Folies-Bergère” (1882).

Mr. Sauerländer’s book covers terrain similar to T.J. Clark’s “The Painting of Modern Life” (1984) but is blissfully free of Mr. Clark’s convoluted writing style and overbearing Marxism. Mr. Clark remains a giant in this field, but Mr. Sauerländer is the more companionable author, and his work is highly recommended.

—Mr. Lopez is editor at large of Art & Antiques.

SPORTS



Arsenal defender Calum Chambers, left, seen challenging Stoke's Peter Crouch during Saturday's 3-2 defeat, has had little experience as a centerback.

HEARD ON THE PITCH

Sri Lanka Takes 3-1 Lead With a Last-Gasp Victory

Sri Lankan spinners combined for nine wickets before Kumar Sangakkara hit 86 runs to help the hosts to a tense six-wicket win over England in the fourth One-Day International in Colombo on Sunday.

England was 265 all out in 50 overs and Sri Lanka chased down the runs with only two balls to spare, finishing on 267-4. Spinners Rangana Herath, Ajantha Mendis and Tillakaratne Dilshan took three wickets each for Sri Lanka with Herath returning best bowling figures 3-36 in 10 overs.

Sangakkara's innings came off 105 deliveries and included seven boundaries. He shared 96 runs in 103 deliveries with Mahela Jayawardene (44) for the third wicket.

Needing three runs to win in three deliveries, captain Angelo Mathews (51 not out) hit a boundary to give Sri Lanka a 3-1 lead in the seven-match series.

—Associated Press

Second Pakistan Spinner Banned for Suspect Action

Pakistan offspinner Mohammad Hafeez has been suspended from bowling in international cricket after an independent analysis found his action to be illegal. The International Cricket Council said Sunday that Hafeez's elbow extension exceeded the permitted 15-degree level of tolerance.

Hafeez was reported after Pakistan won the first Test against New Zealand in Abu Dhabi last month and was tested in England. He can apply for reassessment after modifying his bowling action.

Hafeez is the second Pakistani offspinner to be banned by the ICC after Saeed Aijal was suspended in September. Both players have been named in Pakistan's 30 probabilities for the World Cup. —AP

World Cup Winner Götze Has a Very Golden Boot

Mario Götze's World Cup-winning left soccer shoe has brought a bid of €2 million (\$2.4 million) at a children's charity gala in Germany. The Bayern Munich player scored Germany's winning goal against Argentina during extra time in the World Cup final in July.

Götze had offered the shoe to the highest bidder during an annual charity gala, "A Heart for Children," on public television Saturday night. An anonymous donor made the bid. Germany coach Joachim Löw said the shoe will be exhibited at the new German Football Museum in Dortmund. —AP



European Pressphoto Agency

Germany manager Joachim Löw, left, with Mario Götze's left shoe.

Wenger's Odd Case for Defence

Defeat Shows Arsenal Manager's Unconventional Approach Is Open to Risk

By GABRIELE MARCOTTI

On Saturday, Arsenal went behind against Stoke City 3-0 before clawing back two goals to lose 3-2. It has been a frustrating enough season for Gunners fans, though Saturday perhaps set new lows in terms of defensive ineptitude.

Arsenal conceded within 30 seconds and then looked lost defensively for much of the rest of the game.

Per Mertesacker, the club's World Cup winning centerback, described it as "shocking."

Mertesacker was right to be shocked at the performance, but maybe he shouldn't have been surprised that Arsenal conceded more than usual. Because it's an age-old truism that settled defensive partnerships are more reliable. And, in this case, he was playing without his sidekick in central defense, Laurent Koscielny.

Arsenal had other injuries in defense: the list included right back Mathieu Debuchy, first choice goalkeeper Wojciech Szczesny and his understudy, David Ospina, in addition to reserve left back Nacho Monreal.

But the numbers about stability are clearest when it comes to the heart of the back four.

When Koscielny and Mertesacker have started together this season, they've conceded less than a goal a game (0.86) and when they haven't Arsenal have leaked 1.5 (12 in 8) per match. And this despite the fact that the two starters have featured against tougher opponents, like Manchester City, Chelsea, Southampton and Tottenham.

It's not really a surprise. They're better players. That's why they start, right?

Well, yes. But what's interesting—and just as important—is how Arsenal prepared for the eventuality that one or the other would be missing. It's something that happened roughly 25% of the time last year, so you'd think it would be important.

The approach taken by manager Arsène Wenger—not for the first time—defied conventional wisdom. He did not replace Thomas Vermaelen and Ignasi Miquel, two reserve centerbacks who left the club. Instead, he went into the campaign without a single back-up with top-flight experience at the position.

The alternative to his two regulars was newly arrived 19-year-old Calum Chambers, who had played rightback last season at Southampton. He would slide over into a central defender role. And, if that wasn't possible, Wenger was prepared to dip into the youth team's pool of centerbacks, giving debuts to the likes of Isaac Hayden and Semi Ajayi, two youngsters who have yet to see a minute of Premier League action.

One of the aspects that sets soccer apart from U.S. sports is that you can generally only make roster moves twice a year: in the summer and in January. (Technically, you can pick up free agents at almost any time. In practice, unlike in say the NBA or NFL where there are always guys waiting for a call for a 10-day contract or a stint in the taxi squad, unattached pros are extremely scarce outside the off-season.)

That means that getting your balance right when the door shuts on roster building in August is critical. You need to weigh up the risk of injury or dips in performance, whether due to age or, in the case of clubs in multiple competitions, wear and tear and fatigue.

And you need to do it by position: forwards and midfielders are generally easier to replace when there's an injury or suspension than keepers and defenders, if only because the former are more used to rotating in and out.

You need to weigh up the risk of injury or dips in performance.

You don't want a squad that's too small, because then the impact of injuries can be catastrophic. Nor do you want one that's too big, because then the guys who don't play often start to grumble, lose confidence and risk becoming bad eggs.

You want your reserves to have the right mentality. You don't want players who sulk or rant if they're not picked, but nor do you want folks who are happy to ride the bench and cash the checks.

It's not easy, not least because you have budgetary constraints—both in terms of wages and transfer fees—to contend with as well.

All of these considerations must have passed through the mind of Wenger and the rest of Arsenal's high command in the summer.

That's what makes the squad so extraordinary and unconventional.

Where most top clubs have at least four viable, experienced options at centerback, plan B is the aforementioned Chambers, who has one year of top-flight experience and is expected to adapt both to a new club and a new position.

Plan C is Monreal, who has hardly played at centerback—it shows—and is undersized. Plus, both are also asked to back up the fullback positions since there are no other defenders who have started a top-flight game at the club.

Even then, if you have versatile, durable players you can get away with it.

Chelsea is top of the table and manager Jose Mourinho also has only six veteran defenders at his disposal. The difference is that the likes of Cesar Azpilicueta and Branislav Ivanovic have experience playing multiple positions, so it becomes easier to fit the parts together on the occasions when players become unavailable.

Manchester United also officially has six, but manager Louis Van Gaal, unlike Wenger, has shown a greater willingness to promote kids from the youth team (Tyler Blackett, Paddy McNair) and use wingers as fullbacks (Ashley Young, Antonio Valencia).

Arsenal might have gotten away with it too, if Koscielny and Debuchy had not been injured. That's the risk you take.

Defenders tend to get injured less, but when they do the consequences are far more serious. That's why risk assessment in squad building is so important.

OFF THE WALL

Thai Director Trades Zombies for Patriotism

Country's Military Leaders Hire Hipster Filmmakers for 'Pride' Project to Get a Jump on Their Critics

By JAMES HOOKWAY
Bangkok

On most Thursday afternoons, Thai filmmaker Chalermchatrui Yukol would normally be putting the finishing touches on his new zombie flick. Or he might be adding some more details to the set for a post-apocalyptic submarine drama he is developing in his backyard.

This week, he is working on something rather different: a patriotic film ordered up by Thailand's military leaders, called "Thai Pride."

"Some people are going to see it as a propaganda film. It is paid for by the government," shrugged Mr. Chalermchatrui, who, like many other 29-year-old Thais, routinely dresses in flip-flops and jeans.

But, he adds, "It might not be what people expect."

After a decade of riots, blockades and coups d'état, the most recent of which came in May, movies have emerged as an important front in the ruling junta's efforts to turn back the clock in this Buddhist kingdom and create a more ordered, disciplined nation.

Shortly after taking power, the army offered free tickets to see a blockbuster historical drama about a legendary Thai king and his battles against Thailand's age-old rivals, the Burmese. It has also promised billions of dollars in food and fuel subsidies, while junta chief Prayuth Chan-ocha regularly tries to present himself as a friendly uncle; during a recent news conference on the arrest of anticoup protesters, he spent much of the session patting the head and ear of a kneeling cameraman while explaining why martial law was still in place.

Now Thailand's leaders have tapped the services of the country's up-and-coming filmmakers to produce "Thai Pride" to get a jump on their critics. The movie made its debut on Saturday.

"Thai Pride" comprises a dozen short films loosely based on Gen. Prayuth's "12 Values"—a dozen edicts the general issued earlier this year to encourage Thais to obey their superiors and sacrifice themselves for the good of the nation. These include directives to resist the dark forces of temptation and to be grateful for the opportunity to serve the common good. One commandment is Gen. Prayuth's instruction to support what he calls "the true essence of democracy."

But if the "Thai Pride" film sounds like it might turn into something approaching Cecil B. DeMille's "The Ten Commandments," well, not quite.

The involvement of Mr. Chalermchatrui and other hipster directors, many of whom sport goatees and thick-rimmed glasses, is providing the movie with something of a contemporary spin. Some say they don't want to take a stand and wish to leave viewers to make up their own minds about the films.

Even some of the junta's fiercest opponents are growing interested.



Actors in a scene from 'Thai Pride,' a government-funded film project, which consists of a dozen short films.

"Sure, I want to see this. I'm open-minded enough to hear their arguments and give it some thought," said Nachacha Kongudom, one of several students detained recently for flashing the three-fingered antigovernment salute popularized in the U.S.-made series of "Hunger Games" films. The latest installment, "Mockingjay Part 1" is a big hit in Thailand, partly because its story of an underground rebellion against a dictatorship resonates among many Thais angered by the army's intervention last May.

Mr. Chalermchatrui, who was born into the lower rungs of Thailand's extended royal family, says he was called up by organizers to take part in the project in September.

In some ways, he might have been considered an unorthodox choice, and he acknowledges that he initially wondered whether he should take part. Propaganda, after all, isn't really his thing.

At his Bangkok studio, a simple two-story house in the city's suburbs, he showed visitors parts of his soon-to-be released zombie film. Set during the 16th-century wars between what were then Burma and Siam, "The Black Death" recasts the bubonic plague of the era as a zombie-spawning virus that can only be dealt with by nifty sword play.

In one scene, a zombie's head is neatly dissected, horizontally. A little spurt of spinal fluid from the severed brain stem completes the effect.

The submarine film he is planning is being crowdfunded on Facebook and the set is being built out of junk he finds at landfills or left at the side of the road.

"Yeah, I like hack 'n' slash films, but with a twist," he said.

Similarly, some of the films in the "Thai Pride" project are drawing rather flexible interpretation of the junta's moral code, he says, which could catch the army by surprise.

Mr. Chalermchatrui's piece, for instance, is supposed to meditate on the principles of self-sacrifice. But instead of reeling out a series of conventional militaristic images or shots involving Buddhist monks, he has told his story through the perspective of a pho-

tojournalist documenting the difficult everyday decisions facing people living along Thailand's mountainous border with another military-dominated state, Myanmar.

One character is a border patrol officer who arrests a teenager

for smuggling methamphetamines. Another is an idealistic schoolteacher from Bangkok who is trying to convince him to give the child another chance.

"Who is right, who is wrong? What is it to be virtuous? We don't really know and we're not trying to say," Mr. Chalermchatrui said. "Some of the other films go further. Eyebrows will be raised, I think."

The producers of "Thai Pride" might not want to go too far, though. While the junta hasn't interfered in the development of the film, Gen. Prayuth's patience isn't boundless, as Thailand discovered recently when he called on the public to think up some new backdrops for his weekly television broadcasts.

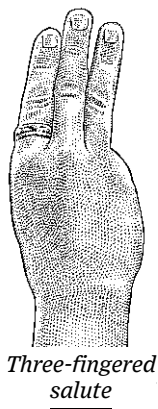
Some mock-ups circulated on the Internet showed him lecturing the nation before a parade of Hello Kitty dolls. Others depicted the junta chief holding forth before futuristic landscapes or perched among characters from the Teletubbies children's television show.

Gen. Prayuth's verdict? "They are all disgusting," he told reporters.

—Wilawan Watcharasakwet contributed to this article.

Online»

Watch a video about the junta's new film series at WSJ.com/OffTheWall.



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Banks Should Weather Oil

Vladimir Putin is talking tough—but the falling oil price is making Russia weak.

The Russian president has promised to bolster his country's banks with public money. He has taken potshots at the speculators he blames for the ruble's collapse. For investors, one worry is the risks to European banks through their lending to Russian clients and the oil industry in general. Thankfully, the exposures mostly look manageable.

Russia is falling into recession. Fighting that with fiscal measures is tough because the government gets half its revenues from oil and gas taxes. In November, an oil price of \$98 a barrel was needed to balance the budget, according to Fitch. Brent crude has since plunged to less than \$70.

Last month's decision to let the ruble float freely eases some strain. Its drop implies the budget-balancing oil price has dropped to about \$82.50. But a slowing economy also means more reliance on oil receipts. The true break-even price might be nearer to \$85.

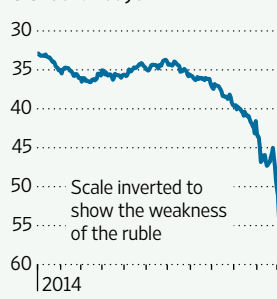
Mr. Putin hopes to stimulate the economy by giving Russia's banks more capital for lending. But credit risk is



Russian President Vladimir Putin

In Retreat

How many Russian rubles one U.S. dollar buys



Sources: ICAP; Getty Images (photo)
The Wall Street Journal

still rising.

Take **Société Générale**, which has most direct Russian exposure among Europe's large banks: Its loan-loss provisions in the first

equivalent to about one-third of its core equity.

If the French bank had to write off all equity and internal funding commitments to its Russian arm, that would

One worry is the risks to European banks through lending to Russian clients and the oil industry, but exposures look manageable.

nine months of 2014 rose 63% to €243 million (\$300.8 million) in the country. But its total loans in Russia, mostly mortgages and car loans, are €13 billion, just 3.7% of all lending, and

cost only €6.50 a share, reckons Nomura. With tangible net assets of €51 a share and a stock price of €39.28, investors have more than discounted this risk.

Raiffeisen Bank's posi-

tion looks more perilous: Its Russian exposure is more than double tangible net asset value and 1.6 times its core equity. **ING Bank**, meanwhile, lends directly into Russia. But it has been cutting back such loans, now just 1.4% of total loans and equivalent to less than one-quarter of core equity.

Another risk is banks' exposure to the energy industry in general. Yet Europe's lenders have lost ground in this market, notes Citigroup. **BNP Paribas** is still the biggest European lender to the global oil industry. But its market share has dropped to 2.6% from 6% in 2009-10. **HSBC, Royal Bank of Scotland, Barclays** and **SocGen** are outside the top 10.

There are still risks, especially in syndicated and high-yield bonds. In skittish markets, arrangers can be left holding more than planned. Since 2011, **BNP**, **Credit Suisse** and **Barclays** have been the top European arrangers of such deals, underwriting \$43 billion, \$33 billion and \$31 billion of loans and bonds, respectively, notes Nomura.

As Russia and the oil sector sputters, there will be blood. But European banks shouldn't spill too much.

—Paul J. Davies

OVERHEARD

The old saying that "pride goeth before a fall" may explain why regulators sometimes seem inadequate to the task of supervising the biggest banks.

A new paper by economists **Hendrik Hakenes** and **Isabel Schnabel** puts a novel twist on the concept of regulatory capture. Typically, this involves regulators getting too cozy with banks or is due to a revolving door between banks and supervisory agencies. The economists' model of regulatory capture is more insidious. They argue banks come up with complex narratives about their activities that regulators don't understand. Regulators, however, are too embarrassed to admit their incomprehension and rubber-stamp the bank's views.

So it's regulatory capture by bamboozlement. Areas in which regulators have discretionary power or rules are particularly complex are especially vulnerable to this, according to Mr. Hakenes and Ms. Schnabel. The rewards for being a clever banker outweigh those for being a clever regulator, so there is little chance of closing the sophistication gap. Simpler rules and less discretionary authority may be the best antidote.

Songbird Doesn't Hear High Bid Note

The investors bidding for Songbird and the company's board are struggling to find the right tune. Smaller shareholders should consider leaving the nest.

A month after their initial spurned bid, **Qatar Investment Authority** and Canadian real-estate investor **Brookfield Property Partners** last week made a final all-cash bid valuing **Songbird Estates** at £3.50 (\$5.49) a share. QIA and Brookfield already control about 32% of Songbird between them and have secured a further 3.5% stake from Third Avenue Management.

Canary Wharf Group, which is 69% owned by Songbird, developed 16 million square feet of property in London's Docklands.

Songbird says the sweetened bid still doesn't reflect its full value but hasn't rejected it.

Songbird's ownership makes the takeover challenging. The company is dominated by four big shareholders, including QIA. American investor Simon Glick's Gf Investments, China Investment Corp. and Morgan Stanley together control more than 50%, so the bidders need at least one of these investors to sell to reach a majority holding, a condition of the deal.

Even if QIA and Brookfield get more than 50% of the company, they still may not control the board: If one of the big four investors sells, a governance clause says they can't transfer their board representation. Ditching this clause is also a condition of the deal going ahead.

Investors in Songbird's remaining free float of about 20% are at the mercy of larger investors. And its shares are already trading at about £3.30, more than 30% above the average volume-weighted price in the six months before the first bid was announced.

The big shareholders may not feel they are being paid enough to relinquish control; reinvesting the deal's proceeds in a real-estate book of similar quality could be tough. But free-float investors have long suffered from the company's ownership structure. The stock has limited liquidity and has historically traded at a discount of 10% to 20% to its net asset value.

The potential dissonance between major shareholders, the bidders and free-float investors makes this deal look challenging. Songbird's disharmony may lead smaller investors to plump for an early exit.

—Thao Hua

Bonds Are Back For U.S. Banks

Bond traders are (almost) back. October and November put debt markets on a path to hit the highest quarterly trading levels in more than a year.

October saw an average daily trading volume not seen since the bond-market trading slump hit in the last quarter of 2013, according to data from the Securities Industry and Financial Markets Association out late last week.

This should benefit banks with big bond-trading operations, particularly **Goldman Sachs** and **J.P. Morgan Chase**.

Bank of America ought to enjoy higher trading revenues as well because its fixed-income currency and commodities unit is heavily tilted toward corporate-bond trading.

Much of the heightened activity was driven by the return of volatility in October. One measure of this showed volatility in mid-October reached its highest level of the year.

Trading in corporate bonds was up nearly 15%

compared with October and November of last year.

Trading in mortgage-backed securities guaranteed by **Ginnie Mae**, **Fannie Mae** and **Freddie Mac** was up 5.63%.

Daily volume in Treasuries came near its highest level all year in October, but declined sharply in November. Even so, average volume for those two months is nearly even with the period a year earlier.

Of course, it remains to be seen what December holds. Last year, December volumes were the worst of the year. Volatility has been steadily declining since the start of the month—an indicator that trading is sliding again.

But even if trading falls off in December, banks haven't seen two consecutive months of elevated trading volume in more than a year. That could translate into significantly higher trading revenues when banks report fourth-quarter earnings. That would certainly make for a happier new year.

—John Carney

Bayer Not Ready for Animal Farm

Bayer doesn't look fit for the farmyard just yet.

The German health-care group is among the last potential industry buyers of **Zoetis**, the animal-health business spun off by **Pfizer** at the beginning of 2013. But even after activist investor Bill Ackman disclosed a stake in the U.S. company, raising the possibility of a sale, Bayer may not succumb to deal making's animal spirits in the near term. It has to clear up its own backyard first.

Keeping animals in shape is big business. U.S. veterinary spending on pets has grown at about 6% annually over the past seven years, says Guggenheim Securities, noting Zoetis thinks the market for livestock animal health is growing at a similar rate. Drugs for Fido are quicker to get to market than their human equivalent, reducing development costs. Most animals are treated out of pocket, meaning limited government pressure on prices and longer product lives thanks to brand loyalty.

Bayer may ultimately want to bulk up in animal health. Its business, which is the fifth-largest globally but accounted for only 3% of sales in the first nine months of this year, is bigger in com-

panion animals than in livestock. Zoetis is stronger in production animals, notably cattle. Antitrust issues could arise by animal or even by type of medicine. But after **Eli Lilly** bought **Novartis's** animal-health division, Bayer looks like one of the few existing players that might not face insurmountable hurdles. It also would have tax advantages from lowering Zoetis's current tax rate.

Even with Mr. Ackman circling and suggestions of **Valeant Pharmaceuticals International**, which doesn't have an animal-health business, as a buyer, Bayer may need more time. After its \$14

billion deal to buy the over-the-counter medicines business of **Merck**, Bayer will end the year with debt close to €20 billion (\$24.76 billion). That is about 2.2 times its forecast earnings before interest, taxes, depreciation and amortization.

But Bayer's pension liabilities also are growing. Those were €11.3 billion in the third quarter, thanks to low market interest rates, up from €7.3 billion at the end of last year. Including those obligations, Bayer's net debt is about 3.5 times Ebitda. Unless it pays down debt, that could put pressure on Bayer's single-A rating, something the company has pledged to protect.

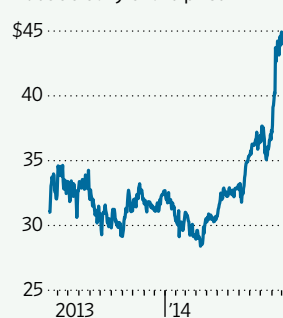
So the company is selling assets. Bayer plans to float its material sciences division, which could be worth some €8 billion, according to **Barclays**; it is reportedly considering selling its diabetes device business, worth up to €2 billion. But in the next couple of years, a large deal like Zoetis still would require substantial equity issuance, an unappealing prospect when the U.S. company is trading at 26 times forecast earnings, against Bayer's 17 times.

For now, Bayer may prefer to keep its nose out of the trough.

—Helen Thomas

Pet Project

Zoetis's daily share price



Source: WSJ Market Data Group
The Wall Street Journal

